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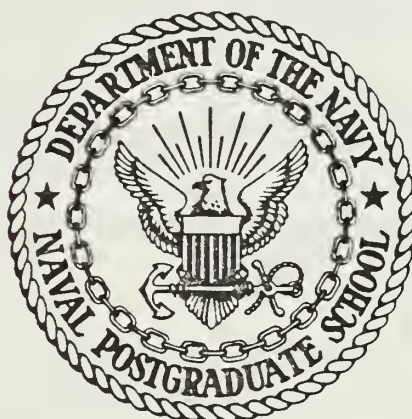






# NAVAL POSTGRADUATE SCHOOL

## Monterey, California



# THESIS

SHOULD THE NAVY ESTABLISH A CENTRALIZED  
OFFICE FOR THE MANAGEMENT OF  
GOVERNMENT-FURNISHED PROPERTY?

by

George K. Mitchell, Jr.

December 1986

Thesis Advisor:

Raymond W. Smith

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## REPORT DOCUMENTATION PAGE

|   |       |  |  |   |                                |
|---|-------|--|--|---|--------------------------------|
| 1a REPORT SECURITY CLASSIFICATION<br>UNCLASSIFIED   |       |  | 1b RESTRICTIVE MARKINGS  |   |                                |
| 2a SECURITY CLASSIFICATION AUTHORITY  |       |  | 3 DISTRIBUTION/AVAILABILITY OF REPORT<br>Approved for public release;<br>distribution is unlimited |   |                                |
| 2b DECLASSIFICATION/DOWNGRADING SCHEDULE  |       |  |  |   |                                |
| 4 PERFORMING ORGANIZATION REPORT NUMBER(S)  |       |  | 5 MONITORING ORGANIZATION REPORT NUMBER(S)   |   |                                |
| 5a NAME OF PERFORMING ORGANIZATION<br>Naval Postgraduate School   |       | 6b OFFICE SYMBOL<br>(If applicable)<br>Code 54 |  | 7a NAME OF MONITORING ORGANIZATION<br>Naval Postgraduate School |                                |
| 5c ADDRESS (City, State, and ZIP Code)<br>Monterey, California 93943-5000   |       |  | 7b ADDRESS (City, State, and ZIP Code)<br>Monterey, California 93943-5000                          |   |                                |
| 3a NAME OF FUNDING/SPONSORING ORGANIZATION  |       | 8b OFFICE SYMBOL<br>(If applicable)            |  | 9 PROCUREMENT INSTRUMENT IDENTIFICATION NUMBER                  |                                |
| 3c ADDRESS (City, State, and ZIP Code)  |       |  | 10 SOURCE OF FUNDING NUMBERS   |   |                                |
|   |       |  | PROGRAM<br>ELEMENT NO  | PROJECT<br>NO   | TASK<br>NO                     |
|   |       |  | WORK UNIT<br>ACCESSION NO  |   |                                |
| 11 TITLE (Include Security Classification)<br>SHOULD THE NAVY ESTABLISH A CENTRALIZED OFFICE FOR THE MANAGEMENT OF<br>GOVERNMENT-FURNISHED PROPERTY?  |       |  |  |   |                                |
| 12 PERSONAL AUTHOR(S)<br>Mitchell, George K., Jr.   |       |  |  |   |                                |
| 13a TYPE OF REPORT<br>Master's Thesis   |       | 13b TIME COVERED<br>FROM _____ TO _____        |  | 14 DATE OF REPORT (Year, Month Day)<br>1986, December           |                                |
| 15 PAGE COUNT<br>125  |       |  |  |   |                                |
| 16 SUPPLEMENTARY NOTATION   |       |  |  |   |                                |
| 17 COSATI CODES   |       |  | 18 SUBJECT TERMS (Continue on reverse if necessary and identify by block number)                   |   |                                |
| FIELD   | GROUP | SUB-GROUP                                      | Government-furnished property; Property<br>administration; Property management                     |   |                                |
|   |       |  |  |   |                                |
|   |       |  |  |   |                                |
| 19 ABSTRACT (Continue on reverse if necessary and identify by block number)   |       |  |  |   |                                |
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| 20 DISTRIBUTION/AVAILABILITY OF ABSTRACT<br><input checked="" type="checkbox"/> UNCLASSIFIED/UNLIMITED <input type="checkbox"/> SAME AS RPT <input type="checkbox"/> DTIC USERS   |       |  | 21 ABSTRACT SECURITY CLASSIFICATION<br>Unclassified  |   |                                |
| 22a NAME OF RESPONSIBLE INDIVIDUAL<br>Raymond W. Smith  |       |  | 22b TELEPHONE (Include Area Code)<br>(408) 646-2052  |   | 22c OFFICE SYMBOL<br>Code 54Sx |

## #19 - ABSTRACT - (CONTINUED)

In this study, the researcher provides a brief history of GFP and the events which have led to criticism of DOD management. Policy for furnishing GFP is reviewed along with the pro's and con's of its usage. The responsibilities of the Government, the contractor, and the government's property administrator are discussed. Organizations already existing in the Air Force, Army, Defense Logistics Agency, and the Navy practicing some degree of centralized property management were reviewed as to their organization and methods for providing guidance and assistance to their property administrators. Interviews with twenty seven Navy property administrators concerning issues such as the sufficiency of guidance they receive from higher headquarters and their views of centralization round out the research. The study concludes that the Navy would benefit by establishing a central office to provide policy and technical guidance to Navy property administrators.

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Should the Navy Establish a Centralized Office  
For the Management of Government-furnished Property?

by

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Lieutenant, United States Navy  
B.A., Western Kentucky University, 1970

Submitted in partial fulfillment of the  
requirements for the degree of

MASTER OF SCIENCE IN MANAGEMENT

from the

NAVAL POSTGRADUATE SCHOOL  
December 1986

## ABSTRACT

The issue of providing government-furnished property (GFP) to major defense contractors, for use in production of Navy hardware, has received considerable attention since 1981 when the House Subcommittee on Legislation and National Security of the Committee on Government Operations held the first of, what was to become, several hearings in regard to DOD's perceived mismanagement of property administration. While Congress made several recommendations over the course of the intervening years, one recurring recommendation was made at the conclusion of each hearing. Congress desired that DOD or the Military Departments establish a central office to coordinate all actions planned and underway for improving management and accountability of GFP.

In this study, the researcher provides a brief history of GFP and the events which have led to criticism of DOD management. Policy for furnishing GFP is reviewed along with the pro's and con's of its usage. The responsibilities of the Government, the contractor, and the government's property administrator are discussed. Organizations already existing in the Air force, Army, Defense Logistics Agency, and the Navy practicing some degree of centralized property management were reviewed as to their organization and methods for providing guidance and assistance to their



property administrators. Interviews with twenty seven Navy property administrators concerning issues such as the sufficiency of guidance they receive from higher headquarters and their views of centralization round out the research. The study concludes that the Navy would benefit by establishing a central office to provide policy and technical guidance to Navy property administrators.

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## I. INTRODUCTION

### A. GENERAL

When the Department of Defense (DOD) provides property or materials to private contractors for their use in the production of defense hardware, it incurs an obligation to monitor those contractors to insure that they are responsible and accountable for the property they utilize [Ref. 1:p. 45-1]. While the question of how well the Government has been carrying out that obligation has been at issue for more than two decades, it has begun to get increased attention over the last six years. The Legislation and National Security Subcommittee of the House Committee on Government Operations conducted hearings in 1981 and 1985 and found that there was a general lack of sufficient control in DOD with regard to property. With estimates of billions of dollars of Government property in the hands of contractors it is not surprising that there was, and continues to be, Congressional concern. [Ref. 2:p. 2]

One recurring recommendation by Congress has been that DOD property management could be improved if responsibility for coordinating all actions of management and accountability was placed in one central office at the level of the Office of the Secretary of Defense (OSD) or in offices of each of the Military Departments. [Ref. 3:p. 38]

To date, the Department of Defense has chosen not to establish such an office. Instead, in 1983, it established the Defense Government Property Council. The Council consists of senior executives from OSD and the Military Departments which meet semiannually to "give oversight and approve policy to assure effective, efficient and accurate management of the Government's investment in property." [Ref. 4:p. 109] By not establishing an office at its level OSD has reaffirmed its position as policy maker intent upon letting the individual Military Departments retain responsibility for implementation of the policy. The Navy chose to follow DOD's lead and established its own council in lieu of establishing a central office. It believes that the existing organization is adequate to deal with any property problems and that a council will be able to initiate and coordinate any improvements planned and currently in progress. The Army, Air Force, and DLA have somewhat centralized Government-furnished property (GFP) oversight now and have made no recent major organizational changes directed at achieving more property control.

Regardless of their individual organizational structures for dealing with property administration, each of the services has made concerted efforts to tighten control and improve their standing with Congress. The question that keeps recurring is whether they have done enough. While remaining more than a little skeptical that the initiatives

thus undertaken by DOD will show substantial benefit, Congress appears willing, at least for the time being, to let DOD work out the problems through whatever organizations it sees fit. However, each time the Legislation and National Security Subcommittee concludes hearings on property issues, it continues to make the same central office recommendation.

How long property will continue to be an issue remains to be seen. Since the policy of DOD is to discourage the use of GFP, it would seem that the problems experienced in its use and management should diminish in proportion to the diminishing amounts of property furnished. Just how quickly and how likely it is that \$40 Billion worth of property, or even a substantial portion of it, will be withdrawn from Defense contractors is a question worth asking. The issue of DOD's management of GFP is not likely to go away in the near future. Neither is the issue of whether more centralized management control is appropriate.

## B. OBJECTIVES OF THE RESEARCH

The principal objective of the study was to determine whether the establishment of one central Navy property office, that would act as a focal point for both policy and technical matters, would be a means of improving property administration.

### C. RESEARCH QUESTIONS

Given the above stated objective, the following research question was posed: Would improvement in the administration of GFP be realized by the establishment of one central office to act as a property focal point responsible for providing policy guidance/implementation and technical/professional guidance to Navy property administrators?

To answer the basic research question, the following subsidiary questions were addressed:

1. What is the extent of the use of GFP in Defense contracting and what are Congressional concerns about its use?
2. What is the Government's policy with regard to the different types of property and how is property administration accomplished?
3. Do offices exist which provide centralized property management for the Air Force, Army, and the Defense Logistics Agency, how are they organized, and how are they viewed by their own personnel as well as the property administrators that they support?
4. What is the organization for management of GFP in the Navy and what are the opinions of property administrators with regard to management and centralization?

### D. SCOPE AND LIMITATIONS

The scope of this study was limited to the property management organizations currently existing in DOD. The thrust of the study was to assess the effectiveness of the Navy organization as viewed through the eyes of the property administrators working at the field contract administration offices reporting to the Navy's hardware buying commands.



In-depth study of the various functional aspects of property administration was limited to their interrelationship within the umbrella of the property administration organization.

#### E. METHODOLOGY

The research data were collected by means of literature search, telephone interviews, and individual interviews with personnel at both headquarters and field level activities. The literature was accumulated through the Naval Postgraduate School Library, the Defense Logistics Studies Information Exchange (DLSIE), The Defense Technical Information Center (DTIC), and several DOD offices dealing with property administration. Telephone and personal interviews were held with Industrial Property Management Specialists (IPMS's) and others involved in the process of managing GFP at the Air Force Contract Management Division, the Army Material Command, the Defense Logistics Agency, the Office of the Assistant Secretary of the Navy (Shipbuilding and Logistics), the Naval Sea Systems Command, the Naval Air Systems Command, the Strategic Systems Program Office, and all twenty seven Navy Plant Representative Offices (NAVPROs) and Superintendent of Shipbuilding offices (SUPSHIPS). Interviews were held on a nonattributable basis to aid the researcher in gaining honest and candid responses.

Other than research concluded in February 1986 by a Naval Auditor named Doug Newton, on special assignment to the Office of the Assistant Secretary of the Navy

(Shipbuilding & Logistics), which evaluated the structure of contract administration offices for property management, this thesis is the only known research in the area concentrating on organizational issues.

Central to this study is the assumption that the people who are actually working with a system are those who are best able to judge it; consequently, the bulk of the interviews were with the property administrators at the NAVPROs and SUPSHIPS. The conclusions and recommendations are derived primarily from their points of view and have not been analytically tested. While the results are obviously biased, they are nonetheless important as input to those officials responsible for improvements in Navy property management. The questions posed to the property administrators are listed in Chapter V.

#### F. DEFINITIONS

The following definitions and terms are applicable to concepts used in this study:

1. CONTRACTOR-ACQUIRED PROPERTY--Is property procured or otherwise provided by the contractor for the performance of a contract, title to which is vested in the Government. [Ref. 1:p. 45-1]
2. GOVERNMENT-FURNISHED PROPERTY--Is property in the possession of, or acquired directly by, the Government and subsequently delivered or made available to the contractor. [Ref. 1:p. 45-1]
3. PROPERTY--Includes all property, both real and personal. It consists of five separate categories--material, special test equipment, special tooling, military property and facilities. [Ref. 1:p. 45-1]

4. REAL PROPERTY--For purposes of accounting classification, means (1) land and rights therein, (2) ground improvements, (3) utility distribution systems, (4) buildings, and (5) structures. [Ref. 1:p. B102.12]
5. SPECIAL TEST EQUIPMENT--Means either single or multi-purpose integrated test units engineered, designed, fabricated or modified to accomplish special purpose testing in the performance of the contract. It does not include: (1) material, (2) special tooling, (3) buildings and nonseverable structures, and (4) plant equipment items used for plant testing purposes. [Ref. 1:p. 45-1]
6. SPECIAL TOOLING--Means all jigs, dies, fixtures, molds, patterns, taps, gauges, other equipment and manufacturing aids, and replacements thereof, which are of such a specialized nature that, without substantial modification or alteration, their use is limited to the development or production of particular supplies or parts thereof, of the performance of particular services. [Ref. 1:p. 45-1]
7. FACILITIES--Means industrial property (other than material, special tooling, military property, and special test equipment) for production, maintenance, research, development, or test, including real property and rights therein, buildings, structures, improvements, and plant equipment. [Ref. 5:p. B102.12]
8. MATERIAL--Means property which may be incorporated into or attached to an end item to be delivered under a contract or which may be consumed or expended in the performance of a contract. It includes, but is not limited to, raw and processed material, parts, components, assemblies, and small tools and supplies which may be consumed in normal use in the performance of a contract. [Ref. 5:p. B102.5]
9. MILITARY PROPERTY--Means Government owned personal property designed for military operations. It includes end items and integral components of military weapon systems, along with the related peculiar support equipment which is not readily available as a commercial item. It does not include Government material, special test equipment, special tooling or facilities. [Ref. 5:p. B101.7]
10. OTHER PLANT EQUIPMENT (OPE)--Is that part of plant equipment, regardless of dollar value, which is used in or in conjunction with the manufacture of components or end items relative to maintenance, supply,

processing, assembly or research and development operations, but excluding items categories as IPE. [Ref. 5: p. B102.12]

11. INDUSTRIAL PLANT EQUIPMENT (IPE)--Is that part of plant equipment with an acquisition cost of \$5,000 or more; used for the purpose of cutting, abrading, grinding, shaping, forming, joining, testing, measuring, heating, treating, or otherwise altering the physical, electrical or chemical properties of materials, components or end items entailed in manufacturing, maintenance, supply, processing, assembly, or research and development operations. [Ref. 5:p. B102.12]
12. COMPONENT--Is a subsystem, assembly, sub-assembly, or other major element of an end item. [Ref. 5:p. 1-326.2]
13. COMPONENT BREAK-OUT--Is the process of identifying and separating out components or subsystems of an end item so that they may be obtained from an alternate source and supplied to the prime Government contractor as furnished property for integration into the system he building.
14. CATEGORY--Means a segment of a contractor's property control system, i.e., acquisition, receiving, records, storage and movement, consumption, utilization, maintenance, physical inventories, subcontractor control, and disposition. [Ref. 6:p. S3:1]
15. SALVAGE--Means property which, because of its worn, damaged, deteriorated, or incomplete condition, or specialized nature, has no reasonable prospect of sale or use as serviceable property without major repairs or alterations, but which has some value in excess of its scrap value. [Ref. 5:p. B103]
16. SCRAP--Means property that has no reasonable prospect of being sold except for the recovery value of its basic material content. [Ref. 5:p. B103]
17. PLANT CLEARANCE--Means all actions relating to the screening, redistribution, and disposal of contractor inventory from a contractor's plant or work site. [Ref. 1:p. 45-20]
18. CONTRACTING OFFICER--Means a person with the authority to enter into, administer, and terminate contracts. The Procurement Contracting Officer (PCO) is the Government's warranted representative responsible for



all activities leading to the award of a contract. The Administrative Contracting Officer (ACO), is the on-site contracting representative at the NAVPRO or SUPSHIP office. He is responsible for insuring that the contractor performs his obligations after award.

19. PROPERTY ADMINISTRATOR--Is the individual designated by appropriate authority to administer the contract requirements and obligations relative to Government property.
20. HARDWARE BUYING DIVISION/COMMAND--Activities in the Army, Navy, or Air Force responsible for purchasing hardware such as planes, ships, or tanks. Examples are Aeronautical Systems Division for the Air Force, Naval Sea Systems Command for the Navy, and the Tank Automotive Command for the Army.
21. DOD PLANT COGNIZANCE PROGRAM--One of the responsibilities of the Defense Contract Administrative Service (DCAS) when established in 1965 was to be DOD's primary agent to provide administration of contracts for the Department of Defense. However there are certain production facilities which the Army, Navy, or Air Force deem highly critical to the success of their missions and for which they desire to maintain cognizance. DOD Instruction 4105.59, DOD Plant Cognizance Program authorized the establishment of plant representative offices for the military departments.

#### G. ORGANIZATION OF THE STUDY

Chapter II provides a historical perspective of government-furnished property, describes some of the problems experienced by DOD, and details Congressional concern. Chapter III discusses Government policy with regard to GFP, the reasons the Government furnishes it, its costs, and the responsibilities of both the Government and the contractor with regard to its management. It also describes the duties of the Government property administrator. Chapter IV describes the organizations responsible for GFP management in the Military Departments and the Defense Logistics Agency.



Chapter V presents the results of surveys conducted with property administrators at twenty seven NAVPRO's and SUBSHIP's. The last chapter draws conclusions and makes specific recommendations resulting from the research effort. Summary answers to the research question and subsidiary questions complete this chapter.

## II. BACKGROUND

### A. CHRONOLOGICAL BACKGROUND

The United States Government has been supplying property in the form of equipment, facilities, and material to contractors since before World War II.

During the 1930's and 1940's, government aircraft procurement agencies typically bought such items as bombing and navigation subsystems, instruments, radar units, electrical power supply units, ground maintenance equipment, etc., directly from specialist vendors and supplied them as government-furnished equipment to an airframe prime contractor, which completed the job of installation. Similar procedures were followed in the procurement of tanks, ships, and other moderately complex weapons. [Ref. 7:p. 103]

The United States entry into World War II further entrenched the Government in the business of providing property to contractors. Even though involvement had been anticipated, the nation was illprepared industrially to fight a war. The three primary reasons were: (1) the civilian industrial complex was short of the capacity needed to meet the expanded wartime production requirements; (2) civilian contractors were unable to finance the necessary expansion; and (3) many were unwilling to do so. [Ref. 8:Para V] The money needed to expand was difficult to obtain and, furthermore, many contractors believed that hostilities would be short lived and they did not desire to increase the size of their operations and then struggle to convert back to peacetime production. Therefore, the

Government was forced to provide facilities to insure that an adequate industrial base was available to meet wartime requirements. Consequently, between 1940 and 1944, the Government provided more than seventeen billion dollars worth of facilities for contractors to operate. [Ref. 1:p. 19]

After the war the Government made little effort to stop providing this property to contractors. Subsequent defense contractors had grown to expect similar treatment, and the procedure became firmly established.

The situation seemed to be reversing itself somewhat during the 1950's as contractors began investing funds of their own in capital facilities, in addition to the Government-owned facilities they already held. By the 1960's DOD had been able to sell many facilities to contractors, and it appeared the Government was getting out of the business of providing property. However, by the end of the decade, a Rand Corporation Study on DOD's policies and practices for furnishing GFE to defense contractors concluded that, for a variety of reasons, the amount of GFE was not decreasing. In fact, the study showed that the majority of the DOD current IPE inventory was acquired between the Korean and Vietnam Conflicts, and another twenty percent was procured through a modernization program during the Vietnam Conflict. [Ref. 8:Para V]

The Rand Corporation report recommended that the high level of investment in GFE should be halted and attention sought to motivate private contractors to acquire the necessary equipment themselves. The report, along with considerable Congressional prodding, seemed to have gotten the attention of DOD.

In March 1970, the Assistant Secretary of Defense (Installation and Logistics) issued policy stating that contractors would furnish all the facilities required for contract performance. [Ref. 10:p. 1] Each of the military services was to develop plans to phase out all Government-owned facilities, including IPE and OPE, in the possession of contractors. This phaseout was to occur over a five year period. However, by 1971, the Deputy Secretary of Defense deferred the new policy for those

contractors plants where mobilization base requirements were being developed and where phase-out would be contrary to government interest or would create an economic hardship for the contractor. [Ref. 3:pp. 7-8]

This action was termed the "phasedown" policy.

In 1972, the Government Accounting Office (GAO) stated that the criteria permitting phasedown deferment were "so general that they permitted many exceptions to the phasedown and would delay much of the activity which may have been anticipated with the phaseout plans." [Ref. 11:p. 1]

By 1977, GAO was convinced that while some progress had been made it was not enough. They recommended that DOD: [Ref. 12:p. 1]

(1) obtain visibility of OPE furnished to contractors by maintaining central records on such equipment, and (2) put more emphasis on identifying IPE and OPE essential to either current or wartime production and removing unneeded equipment.

Again in 1978 DOD revised the phaseout program by stating that, when additional facilities were required for government contracts, private industry would normally be expected to provide them. Additionally, it provided for phasedown exemptions for those sectors of the defense industry that may require continued Government ownership of IPE. Exemptions could be approved at the level of an Assistant Secretary of a Military department. [Ref. 13]

#### B. CONGRESSIONAL INVOLVEMENT

In 1981, DOD's management of GFM was scrutinized by the House Subcommittee on Legislation and National Security of the House Committee on Government Operations led by Congressman Jack Brooks from Texas. Congressman Brooks stated that the hearings had been convened because DOD "has been very slow to improve this (property) system, although the auditors (GAO and DOD) have recommended changes as far back as 1967." [Ref. 14:p. 2] Examples of some of the audit reports are included in Appendix A.

Some of the major problems identified with GFM management were that it was acquired in excess of needs, used on contractor commercial work, sold back to the Government as contractor furnished material, and acquired without contractual authority. [Ref. 14]



The hearings were concluded with a statement from Chairman Brooks that DOD did not have an adequate system for insuring responsible management for the material it provides contractors and that the subcommittee would continue to review DOD's systems for managing material and any other category of property "until we are confident that the department has in place sound systems of control and accountability." [Ref. 14:p. 85]

In 1983 a report by the President's Council on Integrity and Efficiency stated that, at 38 of 40 contractors locations they visited, government officials had not performed required periodic property surveys. Additional deficiencies were that one contractor was allowed to maintain an inadequate property control system for ten years, that many government personnel who performed property surveys did not have the training necessary to conduct them, and that there were many weaknesses relating to the contractors' property control systems. [Ref. 16]

In March of 1985 Congressman Brooks again convened hearings on the topic of GFP. His opening remarks were, "It is unfortunate we have had to schedule another hearing on this problems known to the Defense Department for so long." [Ref. 4:p. 2] He felt that the proper steps had not yet been taken to correct the problems identified in 1981.

Early in the hearings Chairman Brooks called for DOD responses to the recommendations made at the conclusion of

the 1981 hearings. The questions and responses are summarized as follows: [Ref. 4:pp. 28-32]

**Recommendation 1:** DOD should place the responsibility for coordinating all actions planned and underway for improving management and accountability for GFM in one adequately staffed central office.

DOD agreed that GFM management needed to be carefully coordinated among the three military departments and DLA, but considered it impractical to assign that function to a single office because it would pull expertise away from other property-oriented disciplines, such as logistics and acquisition.

Instead of a central office, DOD established the Defense Government Property Council (DGPC) in April 1983. It is responsible for managing all government property. The council consists of a coordinating committee and eight ad hoc groups to deal with various property issues and is made up of senior executives from DOD and the military departments.

**Recommendation 2:** DOD property administrators should enforce the provisions of contracts in accordance with the Defense Acquisition Regulation and should periodically check the GFM for losses and excesses.

DOD stated that the military departments and DLA were reviewing major contracts, all contractors, the contract administration offices, and logistics procedures. They estimated a review completion date of June 1986.

**Recommendation 3:** DOD should develop a plan of action as soon as possible to install accounting controls over GFM within DOD and get the applicable systems approved by GAO.

Between 1981 and 1983, Defense established principles and standards for accounting for government furnished property and issued them in the Services. The estimation was that full implementation of the standards would not occur until 1989.

Recommendation 4: DOD should involve as many contractors as feasible to test the practicability of selling material to contractors instead of providing GFM.

Based upon the results of a test program completed in 1983, DOD recommended against selling Government material to maintenance contractors in lieu of providing it as GFM. Reasons for the reports conclusions were that:

- The cost of implementation and continued funding of the process would place all but the smallest contracts financially out of reach of small business.
- Contractors would require more, not fewer, personnel.
- Contractors would have to increase the price of the contract to include the cost of material plus overhead and general and administrative costs to handle what was GFM.

Recommendation 5: DOD should review the various GAO and DOD audit reports relating to GFM and should implement the recommendations contained therein. In particular, DOD should systematically review its major GFM contracts to identify and excess material and the finding should be validated.

DOD stated that the military departments and DLA were in the process of implementing the DOD Inspector General's recommendations for determining excess GFM at contractor plants. They were expected to be complete by June 1986.

Recommendation 6: DOD should increase the number of property administrators assigned to contractor plants.

DOD stated that the GS/GM 1103 Industrial Property Management Specialists had increased from the 695 reported to the subcommittee in 1981 to 862 as of September 30, 1984.

**Recommendation 7:** DOD should control production contractors' access to DOD's supply system.

DOD stated that DOD Instruction 4140.48 entitled "Controls of Access to DOD Material Inventories by Maintenance Contractors" was issued in 1981. It required maintenance contractors to submit all requisitions to a central office for review and validation. It was expected that the provisions of the instruction would be fully extended to production and supply contracts by June 1988.

Congressman Brooks concluded the hearings by stating that in his opinion little progress had been made to ensure adequate control of the material and equipment that DOD provides contractors. He further stated that [Ref. 4:p. 120]

Substantial amounts of Government-furnished material and equipment remain unaccounted for and there is little doubt that millions of dollars worth of this property is being lost every year. The Defense Department assured us that they have been working to implement a system of accountability, but the situation is about the same as in 1981 . . . the taxpayers in districts all over this country are no longer going to tolerate DOD's failure to address such a long standing problem. We intend to continue monitoring DOD's actions to ensure that these deficiencies are finally corrected.

#### C. CURRENT ISSUES

On March 20, 1986 Congressman Brooks conducted the latest hearings concerning property management [Ref. 2].



Testimony was presented by Mr. Frank C. Conahan, Director, National Security and International Affairs Division, U.S. General Accounting Office; and Mr. John A. Mittino, Deputy Assistant Secretary of Defense for Production Support, and Chairman, Defense Government Property Council.

Also present to respond to questions were the following representatives of the military departments and the DLA:

- Mr. Bruce King, Chief of Contract Policy and Procedures Division, Office of the Deputy Chief of Staff for Logistics, U.S. Department of the Army.
- Mr. Ernest G. Cammack, Deputy Director, Contracts and Business Management, U.S. Department of the Navy, and member, Policy Advisory Group, Defense Government Property Council.
- Mr. Ira L. Kemp, Associate Director for Contracting and Manufacturing Policy, U.S. Department of the Air Force.
- Mr. William V. Gordon, Executive Director for Contract Management, Defense Logistics Agency, and member, Policy Advisory Group, Defense Government Property Council.

These individuals, representing the property policy makers for their respective Services, were attending yet another hearing in which they would be confronted with the inadequacy of DOD to responsibly manage Government-furnished property in the hands of contractors.

#### 1. GAO Testimony

Those assembled heard Mr. Conahan state that since the Pentagon ordered a phasedown in the DOD practice of furnishing equipment to defense contractors fifteen years ago, the value of Government-owned equipment turned over to contractors for their use has increased 60 percent from \$5.3



Billion to \$8.4 Billion. [Ref. 17:p. 6] Conahan stated that DOD policy of furnishing equipment to contractors only to meet surge and mobilization requirements had not been effectively implemented. He cited several examples found by GAO auditors when they examined 25 contractors for whom DOD had very loosely interpreted the surge and mobilization exceptions. The examples included: [Ref. 2:pp. 8-10]

- An Army contractor had acquired more than \$500,000 worth of office furniture from private vendors without screening available Government inventories or using GSA schedules. Additionally, the contractor charged the Army about \$142,000 in administrative expenses for overseeing the purchase. The Army authorized the purchases because it assumed that the contractor was financially unable to provide its own equipment. A contractor top official told GAO that the company would have been willing and able to provide the equipment if required to do so.
- \$875,000 worth of office furniture and computer equipment was purchased for a firm that prepares environmental impact statements for the Air Force. These included a \$1,300 conference table, three \$1,000 oak desks, and 13 book cases that cost \$600 each. The rationale for the authorization was that the Air Force needed to have the contractor near the program office and the contractor was unwilling to provide the equipment.
- At a Navy aircraft contractor the amount of OPE stayed constant at about \$2.1 Million for many years, because it had been rolled forward from one facility's contract to another. The Navy had evidently failed to require the contractor to make a needs assessment of this equipment. In fact, some \$420,000 worth of that equipment could not be located, because the contractor did not maintain adequate control over it. The contractor requested and received relief from accountability for those items.
- A Navy contractor retained 39 OPE items valued at about \$1.4 Billion in its warehouse for over four years. Although the contractor repeatedly asked the Navy for disposition instructions, the Navy didn't respond,

reportedly because of a reorganization and reassignments of key personnel.

Mr. Conahan stated that the amount of all types of property now estimated to be in the hands of defense contractors is \$40 Billion [Ref. 2:p. 5]. He concluded by saying that DOD's failure to minimize the amount of equipment it provides to contractors centered around four explanations:

- Regulations are vague, and guidelines are inadequate.
- Contractor incentives to buy their own equipment need emphasis.
- DOD slights opportunities to sell off Government-owned plants and equipment.
- Oversight at headquarters and in the field remains defective. The Defense Government Property Council is understaffed, operates only on an ad hoc basis, and has no authority to direct the services to take corrective action where appropriate.

## 2. DOD Testimony

The DOD witness, the Deputy Assistant Secretary of Defense for Production and Support, opened his testimony by restating the 20 year old policy to "reduce ownership to the minimum essential to support emergency defense requirements." [Ref. 2:p. 10] He went on to give an all-inclusive account of DOD's progress in the management of GFP. Since a complete copy of his testimony is included in Appendix B, only a selected few of his comments are paraphrased below:  
[Ref. 18:pp. 1-9]

- The Industrial Modernization Improvement Program (IMIP) is aimed at fostering increased defense contractor capital investment that results in increased

productivity, improved quality, reduced DOD acquisition costs, and an enhanced industrial base.

- Government-owned Contractor-operated (GOCO) plants numbered 112 in FY69. There are 64 GOCO's today of which 24 are ammunition plants.
- Less than 15 percent of our defense contractors possess Government-owned property.
- The Defense Government Property Council (DGPC) has been strengthened under new OSD leadership. I now chair the council. The Navy formed a Navy Government Property Council in April 1985 to serve as a focal point to centralize recommendations for policy improvement. The Army is planning to form such a council.
- The Department of Defense Industrial Property Management System is being designed to track all dollars of DOD plant and equipment on a contract basis. Accountability tracking of special tooling, special test equipment, military property, and material will be phased in over time.
- The Defense Logistics Agency is disposing of over 6,000 idle and unneeded IPE items from the DOD General Reserve. The disposal will take approximately three years.
- Efforts are underway to expedite implementation of Financial Accounting Standards for property. A candidate system has been identified and we are now evaluating its suitability.
- We recognize that the following areas need more attention and strengthening: facilities phasedown; negotiated sale of GOCO's; reduction of initial provisioning and equipment; implementation of financial accounting; and increased visibility of property in the possession of contractors.

### 3. Latest Congressional Recommendations

Chairman Brooks remained unimpressed with DOD efforts to improve property management. He said that, "the contractors continue to take full advantage, the loopholes remain open, and nobody is in charge." [Ref. 2:p. 12]

One of the four recommendations called upon the Secretary of Defense to clarify and promulgate firm equipment acquisition guidelines for contractors. The three remaining were restatements of recommendations that had been made at the conclusion of the hearings held in 1981 and 1985: [Ref. 2:p. 12]

- Place responsibility for coordinating all actions planned and underway for improving the management of and accountability for GFP in one adequately staffed central office (at either the OSD level or with the individual service headquarters level).
- Determine and request and additional investment in personnel, training, accounting systems, and management information resources necessary to ensure proper enforcement of the provisions of defense contracts in accordance with the terms of the Federal Acquisition Regulation.
- Speedup current Department efforts to install appropriate accounting controls over GFP.

#### D. SUMMARY

It would appear that the interest of Congress in DOD management of GFP has reached an all time high. The purpose of this chapter was to give the reader some insight, from an historical perspective, into what occurred over the years to stimulate that interest. What remains to be seen is whether the issues intensify or go away. Since subcommittee Chairman Brooks has over five years invested in property matters, it is probable that DOD property management will continue to receive significant Congressional attention.

Presented in the following chapter will be a discussion of the policies contained in the FAR with regard to GFP, the



responsibilities of both the contractor and the Government in regard to its management, reasons for furnishing it, and the costs associated with furnishing it. Also presented is a discussion of how property administration is accomplished by the Government's representative, the Property Administrator.



### III. GOVERNMENT-FURNISHED PROPERTY POLICY AND RESPONSIBILITIES

The purpose of this chapter is to discuss Government policy with regard to GFP, the reasons for furnishing it, Government costs as a result of providing it, the responsibilities of both the Government and the contractor with regard to its management, and the role of the Government property administrator.

#### A. POLICY WITH REGARD TO FURNISHING GOVERNMENT PROPERTY

The Federal Acquisition Regulation (FAR) defines broad categories of property. They are: [Ref. 19]

1. Military Property
2. Special Tooling
3. Special Test Equipment
4. Material
5. Facilities
  - a. Real Property
  - b. Industrial Plant Equipment
  - c. Other Plant Equipment

Although policies regarding Government-furnished property vary depending on the type of property and the type of contract, it is the general policy of the Department of Defense that contractors will furnish all property required for the performance of Government contracts. If the

contractor is unwilling or unable to provide all the resources needed, the Government has historically made every effort possible to furnish, or offer, existing assets that are suitable for the work to be accomplished or authorize the purchase or fabrication of whatever property will be required. [Ref. 20:p. 51]

Table 1 is a brief summary of the FAR provisions for each type of property. The thrust of DOD policy is that:  
[Ref. 20:p. 51]

- We do not want to get involved with government ownership of industrial property unless we absolutely have to.
- We will make the best possible use of the property we do own.
- We will get rid of facilities when they have outlived their usefulness.
- We will not provide facilities to contractors without considering the costs involved.
- When we do provide facilities, we will receive appropriate consideration to prevent contractors from being unfairly enriched.

#### B. REASONS FOR THE USE OF GOVERNMENT FURNISHED PROPERTY

Throughout the years the existence of certain conditions have prompted the furnishing of property to defense contractors. Some of the reasons often cited for providing GFP include: (1) Contract type; (2) Economy; (3) Standardization; (4) Security; (5) Increased competition; (6) Support of small business; (7) Expedite production; and (8) Maintain the industrial base. [Ref. 20:p. 51]

TABLE 1

FAR POLICY ON PROVIDING GOVERNMENT-OWNED  
PROPERTY TO CONTRACTORS [REF. 20:P. 52]

| <u>Type of Property</u> | <u>Reference</u> | <u>Policy</u>  |
|-------------------------|------------------|--|
| Military Property       | 45.310           | When necessary   |
| Special Tooling         | 45.305-1         | Offer existing special tooling   |
|                         | 45.305-2         | Contractors provide and retain title   |
|                         | 45.305-2         | Criteria for exercise of Government option to take title   |
| Special Test Equipment  | 45.307-1         | Offer existing special equipment   |
|                         | 43.307-2         | Criteria for acquiring new special test equipment  |
| Material                | 45.303-1         | Contractor furnish all   |
| Facilities              | 45.302-1         | 1. Contractor furnish all<br>Exceptions:<br>a. GOCO plants<br>b. Support of industrial preparedness programs<br>c. Findings of the Secretary of the Department |
|                         |                  | 2. Furnish existing facilities rather than new   |
|                         |                  | 3. Explore all alternatives to providing new facilities  |
|                         |                  | 4. No new facilities offered unless required to obtain adequate price competition  |
|                         |                  | 5. No general purpose facilities within R&D funds  |
|                         |                  | 6. No facilities solely for non-government use   |
|                         |                  | 7. No facilities under \$1000<br>Exceptions:   |

TABLE 1 (CONTINUED)

- a. Non-profit organizations for research
- b. GOCO plants
- c. Work on Government installations
- 8. No IPE without a Certificate of Non-Availability from DIPEC
- 9. Special approvals for ADPE
- 10. Securing approvals for facilities projects

1. Contract Type

When the Government enters into a cost-reimbursement type contract, all assets acquired or produced under that contract are by definition Government-owned property. Upon completion of performance, the contractor is notified as to the actions he must take to be relieved of property responsibility.

2. Economy

In many instances the Government will be able to buy certain component parts at more favorable prices than the prime contractor with whom it is dealing. Examples would include Government buying of materials in bulk quantities for use on many different contracts and Government negotiation of lower prices for materials because of its access to cost and pricing data. Additionally, by providing property to the prime contractor, the Government will avoid paying

the overhead and profit that the prime would have passed along relating to his purchase of the materials.

### 3. Standardization

Use of standard materials and procedures lead to life cycle cost benefits, higher reliability, simplified training, proper documentation, and a more stable logistic support base [Ref. 21:p. 4-79]. In addition, the interoperability of spare parts between the Military Services of the United States and those of our allies is critical. By obtaining the materials it has designated for standardization and furnishing them to prime contractors as property, the Government is better able to control its standardization goals.

### 4. Security

There are often instances when the contractor is required to incorporate security classified components into an end item that he is producing. These secret or top secret components are tightly controlled by the Government and can only be provided by the Government.

### 5. Increase Competition

Many firms have failed to bid on government contracts because they were unable to provide expensive tooling or machinery necessary to produce some of the components or subassemblies required for integration into an end item they were capable of producing. These types of hindrances can be diminished if the Government can accomplish component



breakout for those items and provide them as property. By opening the market to more potential producers the Government will benefit as competition drives prices down.

#### 6. Support of Small Business

Government policy is to promote small business enterprises by providing assistance, if necessary. One way to do so is to provide Government-furnished equipment to take the place of certain expensive items which the small business might not be able to afford.

#### 7. Expedited Production

If the contractor experiences difficulties procuring production equipment or materials with long lead times, the Government may be able to provide the necessary items from stock it has on hand, or it may be able to assist the contractor through its expediting powers established under the Defense Priorities and Allocation System (DPAS).

#### 8. Maintain the Industrial Base

"Success in developing and producing defense systems relies heavily on the technological and industrial capability and overall health of the defense industry." [Ref. 22:p. 2-1] Unfortunately, not all levels in the defense industry are healthy. It is common knowledge that there has been a continuing deterioration and contraction of the defense base since the Vietnam Conflict. The most deterioration has been experienced at the lower tier or subcontractor and supplier level, where small firms have ceased to do business with

DOD. This lack of suppliers has caused a severe restriction in the military hardware pipeline. In part, this industrial bottleneck is due to the "on-again, off-again" defense budgets characteristic since the early 1970's. [Ref. 22:p. 2-4] Consequently, many firms have not been willing to make the investment in equipment necessary to compete in the defense sector.

The nation must be able to rely on having adequate production facilities which will allow the armed forces to achieve a state of readiness during mobilization for war, or to surge (accelerate) current production to support combat operations short of war. Historically, contractors have been unwilling or unable to facilitate for more than current production needs. Their argument has been that they cannot afford the additional expense of providing and maintaining facilities on a contingency basis. Therefore, since the end of World War II, the Government has provided facilities to contractors, for mobilization and surge, to ensure an adequate industrial base in time of emergency.

#### C. GOVERNMENT COSTS OF PROVIDING PROPERTY

While there are several reasons why the furnishing of property is desirable, there are also costs associated with doing so. Some of the costs are: (1) Costs of property; (2) Costs of administration; (3) Reduction of competition; and (4) Reduction in contractor liability. [Ref. 20:p. 49]

## 1. Cost of Property

As stated in Chapter II, it has been estimated that the amount of all types of property now in the hands of defense contractors is \$40 Billion, of which \$8.4 Billion is equipment. This represents a substantial increase over the last decade. In light of the stated DOD policy to phase down the amount of Government property provided contractors, it appears to Congress that there has been minimal effort to do so. Compounding the fact that costs have risen significantly, are the numerous GAO and DOD audit reports stating that these assets are not being properly managed and that loss and damage is excessive.

## 2. Cost of Administration

There are significant costs associated with the proper management of GFP for both the contractor and the Government. The contractor's costs are experienced as a result of his efforts to manage and account for the Government's property through the property control system that he designs and operates. The Government's costs are incurred as a result of its responsibilities to provide surveillance of the contractor's system and its responsibilities for insuring that Government obligations for providing and delivering property are carried out in accordance with contract provisions. The Department of Defense has full time property administration experts located at nearly all

major contractor facilities where an Air Force, Army, Navy, or DLA contract administration office has been assigned.

### 3. Reduction of Competition

As discussed earlier, one of the reasons for providing GFP is to increase competition. Conversely, a convincing argument can be made that providing large amounts of property to large contractors can effectively reduce competition overall. The argument is that contractors who have property, such as IPE, OPE, or Special Tooling, have an advantage over those who have their own capital invested in such assets. The obvious solution is for the Government to eliminate any competitive advantage by assessing a "rent and use charge against the proposal of the bidder desiring to use GFP. The charge is not necessarily collected, but used for evaluation purposes." [Ref. 23:p. 31] However this procedure is more work for Government PCO's who must insure that the evaluation factors used to make a competitive advantage decision are clearly stated in the solicitation and are fairly evaluated.

### 4. Reduction in Contractor Liability

When the Government agrees to provide property to the contractor, it assumes responsibilities. If the Government fails to accomplish timely delivery or delivers defective material or equipment, it has potentially hindered the performance of the contractor. If its actions cause the contractor to incur costs or schedule slippage, the



Government must make an equitable adjustment of the contract. Equitable adjustments can often become major stumbling blocks if the Government believes that the contractor is attempting to take advantage of the situation by claiming excessive costs that will allow him to "fix his own mistakes at the expense of the Government." [Ref. 24:p. 50]

The obvious question that must be asked by DOD acquisition personnel is whether the benefits received from providing property outweigh its potential costs. In view of the discussion thus far, the answer may not be so obvious.

#### D. CONTRACTOR RESPONSIBILITIES

##### 1. General Responsibilities

The Federal Acquisition Regulation (FAR) prescribes the responsibilities of the contractor for the accounting and control of Government property in his possession. Included are the following key responsibilities: [Ref. 19:Part 45]

- The contractor is responsible and accountable for all Government property in accordance with the guidelines found in FAR and sound industry practice. This includes property in the possession of subcontractors.
- The contractor will establish and maintain a system to control, protect, preserve and maintain all Government property.
- The property control system will be in writing unless the Government property administrator determines that maintaining a written system is unnecessary.
- The system will be reviewed and, if satisfactory, approved in writing by the property administrator. The



Government reserves the right to audit the contractor's system as frequently as conditions warrant.

- The contractor's property control records will constitute the Government's official property records unless an exception has been authorized.
- The contractor will conduct physical inventories of all Government property in his possession or control. Discrepancies must be furnished to the property administrator promptly upon completion of the inventory.
- The contractor must establish a maintenance program for Government equipment that provides preventive maintenance and operational maintenance consistent with industry standards.
- The contractor will provide schedules of property remaining at the conclusion of the contract and will dispose of the property as directed by the property administrator.

## 2. Risk of Loss

The Government expects the contractor to treat the property as though it were his own and to insure the property for any potential risks. Under fixed-price contracts the Government holds the contractor liable for any loss or damage to the property except reasonable consumption, wear, and tear. It does not make any difference if there is negligence involved. At the other extreme are cost-reimbursement contracts for which the Government acts as a self-insurer for almost all risks. Generally, on cost-type contracts, the contractor can be held liable only for willful misconduct or lack of good faith of managerial personnel. [Ref. 20:pp. 68-69]

It is apparent that the contractor's responsibilities are many and varied, and it is easy to see why the

contractor, not the Government property administrator, is considered the manager of the property at his facility.

#### E. GOVERNMENT RESPONSIBILITIES AND PRIVILEGES

Included in the Government property clause are the following Government responsibilities with regard to property: [Ref. 19:Part 52]

- The Government will deliver the property described in the schedule or specifications section of the contract.
- The Government will deliver the property at the times stated in the schedule or, if not so stated, in sufficient time for the contractor to meet delivery or performance.
- If the property is not delivered on time, and the contractor has suffered financial loss or schedule slippage as a result, the Government will equitably adjust the contract.
- In the event the property is delivered in a not suitable condition the Government will provide disposition instructions to the contractor, provide for suitable replacement property, and equitably adjust the contract, if necessary.

As a result of furnishing property for contractor use, the Government receives the following privileges: [Ref. 19:Part 52]

- The Government cannot be held liable for breach of contract by reason of delay in the delivery of property.
- If it provides notice in writing, the Government may decrease or substitute any property.
- The Government will have reasonable access to the contractor's premises for the purpose of inspecting Government property.
- At the conclusion of the contract, the Government may abandon any property in place.

- The Government has no obligation to the contractor with regard to restoration or rehabilitation of the contractor's facility in either the case of abandonment or other disposition.

## F. PROPERTY ADMINISTRATION

### 1. General Background

The responsibility for ensuring that the contractor complies with the contract and FAR provisions, with regard to property, belongs to the Government property administrator (PA) at the contract administration office. There are two types of Property Administrators, those resident at a contractor's plant and who deal continuously with the large amounts of property assigned to that contractor, and those who are itinerant with area-wide responsibility for lesser amounts of property assigned to several contractors. The vast majority of the PAs falling into the first category are assigned to contract administration offices located at facilities such as: Army Plant Representative Offices (ARPROs), Navy Plant Representative Offices (NAVPROs); Superintendent of Shipbuilding, Conversion and Repair (SUPSHIPS); Air Force Plant Representative Offices (AFPROs); and Defense Contract Administration Services Plant Representative Offices (DCASPROs). The vast majority of those PAs in the second category work for Defense Contract Administration Services Management Areas (DCASMA) that have contract administration responsibility for those contractor

facilities not assigned their own on-site contract administration offices.

The selection, appointment and termination of appointment of PAs is made in writing by the head of the contract administration office from individuals assigned to the GS 1103 job series called Industrial Property Management Specialists (IPMS). While there may be several IPMSs assigned to a plant representative office, only one individual will be assigned as the property administrator. In plants where there are vast amounts of Government property, the PA may appoint assistant property administrators.

## 2. Duties and Responsibilities

The U.S. Civil Service Commission position classification standards state that the duties and responsibilities of a property administrator include, but are not limited to, the following: [Ref. 25:p. 10]

- Assisting and directing negotiations with contractors in the establishment of adequate industrial property control systems.
- Evaluating, and approving or disapproving, contractor's policy, procedures and techniques, and changes thereto, pertaining to management of Government property.
- Developing, planning, scheduling, or performing system surveys to analyze, test and evaluate the contractor's system for Government property management.
- Maintaining surveillance over the contractor's property management system to assure that the contractor meets the requirements and obligations of each assigned contract.
- Disclosing and evaluating conditions of loss, damage, or destruction of Government property, and determining contractor's liability.



- Evaluating inventory adjustments and approving those determined to be reasonable.
- Resolving property administration questions as necessary with the contractor's management personnel, Government procurement, logistic, and audit agencies, and other concerned Government departments and agencies.
- Advising and assisting the contractor in all actions relating to the proper and timely disposal of Government property.
- Taking other actions with regard to Government property necessary to protect the Government's interest.

As stated in the standards, the job requires individuals who can apply experienced judgment to the intricacies of controlling very large amounts of dissimilar property used in diverse situations that produce problems for which there are few guidelines or precedents. [Ref. 25:p. 20]

### 3. Initial Evaluation of the Contractor's Property System

Normally the PA makes initial contact with the contractor at a post-award orientation conference. At this time the PA will assure suitable discussion of property administration problems and responsibilities. Additionally, the administrator will request that: (1) the contractor provide him with the name of the representative to contact for review and discussion of the proposed control system, and (2) the policies and procedures, which the contractor will utilize to implement the system, be available for his evaluation. [Ref. 6:p. S3:5]



Sometime after the initial meeting, the PA will review the contractor's property control system to determine questionable areas in the proposed procedures, essential controls that were not specified in the system, or areas that require physical verification or testing on his part. [Ref. 6:p. S3:5] A Property Administrator that is resident at the contractor's facility will more than likely want to observe the operation of the system in the plant.

Upon completion of the review, a written report is required to support approval of the system or to identify those areas that were deficient and are required to be corrected prior to such approval. After the contractor is notified of his deficiencies, he is given a reasonable amount of time to correct them.

When the PA is not successful in obtaining compliance within a reasonable amount of time, he must provide the ACO with a documented statement of the problem, a statement of the contractor's position, and the recommended action. [Ref. 6:p. S3:6] The ACO is authorized to resolve the problem in a manner befitting the severity of the deficiency. When the contractor's property control system is acceptable, the PA will advise both the contractor and the ACO by issuing a letter of approval.

#### 4. System Surveys

As stated earlier, the PA is responsible for developing, planning, scheduling, and performing system

surveys to analyze, test and evaluate the contractor's system for Government property management. To accomplish this the PA develops a new complete system survey plan each year. The plan schedules evaluations and tests that will be accomplished throughout the year. The survey plan "should be structured considering the types of property involved, the complexity of the contractor's property system, the value and amount of the property, and the results of past reviews." [Ref. 15:p. 4]

The PA must exercise judgment in determining what categories of the contractor's property system warrant examination. Table 2 outlines the categories and functional areas of those categories which the PA may desire to evaluate or test.

#### 5. Performing the Survey

The actual performance of the survey is accomplished by selecting samples of property to inspect. Statistical sampling is done to determine the performance level for each functional area and category within the system. The lot from which the sample is chosen should include the maximum possible number of line items of property, records and documents. A 90 percent confidence level is the lowest that the PA can accept. Much more detailed information, about the duties of the PA with regard to evaluation and approval of the contractor's property control system, can be found in Supplement 3, Part 3 of the Defense Acquisition Regulation.

TABLE 2

PROPERTY CATEGORIES AND FUNCTIONAL AREAS  
THAT THE PA WILL EVALUATE [REF. 6:P. 3S:23]

| <u>Category</u>      | <u>Functional Area</u>  |
|----------------------|---|
| Acquisition          | Government-furnished property,<br>Contractor-acquired property                                  |
| Receiving            | Receiving process, Inventory control  |
| Records              | Fabrication records, Receipt and<br>issue file, Custodial records, Scrap<br>and salvage records |
| Storage and Movement | Warehousing, Internal and external<br>movement  |
| Consumption          | Reasonableness of consumption,<br>Conservation  |
| Utilization          | Plant equipment, Special tooling,<br>Special test equipment, Material                           |
| Maintenance          | Preventive and corrective mainte-<br>nance, Capital type rehabilitation                         |
| Physical Inventories | Performance of inventories, Record-<br>ing, Adjustments   |
| Subcontract Control  | Prime contractor controls, Subcon-<br>tractor controls  |
| Disposition          | Disclosure of excess, Disposal  |

After completion of testing, the findings are recorded and analyzed. If any category is found to be unsatisfactory, the PA determines the effects upon the entire system and samples all applicable categories in order to determine the existence of other defective areas and the full scope of defectiveness in the entire system. [Ref. 6: S3:12]

When he has concluded each survey, the PA determines and reports his findings to the contractor. If unsatisfactory conditions exist, the PA must follow-up until corrective action has been taken. If conditions warrant, the PA may notify the ACO if the contractor's management of property has violated the FAR requirements or the provisions of the contract. As discussed earlier, the ACO is authorized to initiate administrative actions to include withdrawal of the property and termination of the contract. However, the latter rarely happens.

#### G. SUMMARY

This chapter contained a brief explanation of GFP and the policies, responsibilities, and pro's and con's associated with its use. Also included was a discussion of the role of the Government Property Administrator and how he goes about maintaining surveillance and control over the contractor's management of the Government's property. The job of the PA was seen to be wide ranging and complex.

Chapter IV will look at the organizations in the military departments and DLA that are responsible for GFP management. Also to be presented, in summary form, will be the results of discussions held with key Industrial Property Management Specialists in those departments concerning how they are organized to manage property.



#### IV. DOD'S ORGANIZATION FOR PROPERTY MANAGEMENT

The purpose of this chapter is to describe the way that property is managed within the Air Force, Army, Defense Logistics Agency, and the Navy. While those headquarters level offices responsible for making policy are mentioned, no discussion of actual policy making is presented. The major emphasis of the chapter is on policy implementation. The research was directed at those activities recognized as the focal point for property management. Discussions were held with the head of the property administration function at the Air Force Contract Management Division, Army Material Command, Defense Logistics Agency, and with individuals working with property policy in the Contracts and Business Management office of the Assistant Secretary of the Navy for Shipbuilding and Logistics (S&L). To get a closed-loop perspective, discussions were held with one Plant Representative Office reporting to each of these commands and key individuals at any intermediate commands. Findings of interviews with the Navy's Plant Representative Offices are presented in detail in Chapter V. The researcher was interested in the method of organization, manpower resources available, and the type of assistance provided to the Property Administrator at the plant representative offices. In every case individuals with whom discussions were held



were the senior persons in that office with property administration responsibilities. The chapter begins with a general overview of property responsibilities at the level of the Secretary of Defense.

#### A. DEPARTMENT OF DEFENSE

At the headquarters level, management control of Government-furnished property is the responsibility of the Assistant Secretary of Defense (Acquisition and Logistics), ASD(A&L). Financial/Accounting responsibility is with the Assistant Secretary of Defense (Comptroller), ASD(C). Historically, the role of the ASD(C) has primarily centered around accounting for the dollar value of facilities, real property, IPE, and OPE in the hands of contractors and reported yearly on DD Form 1662 entitled "Report of Government (DOD) Facilities." The office of the ASD(C) compiled the necessary facilities data, ensured that it was entered in the correct financial category, and summarized the information for reporting purposes. With the current emphasis that is being placed on installing accounting controls over GFM and the revision of the DD Form 1662 to include all five types of property, it is anticipated that the responsibilities of the ASD(C) will increase substantially. However, since his responsibilities are beyond the scope of this study, they will not enter into further discussions to any significant extent.

One step below the ASD(A&L) is the Deputy Assistant Secretary for Production Support, DASD(PS) who is the DOD focal point for property matters. This office is responsible for overall DOD policy with regard to property. The DASD(PS) is the chairman of the Defense Government Property Council and has testified before Congress numerous times concerning DOD's management of property. The DGPC was established to "enhance daily coordination of all property actions within OSD and the services." [Ref. 18:p. 6] The chairman of the council's Coordinating Committee is a member of the immediate staff of the DASD(PS). As discussed in Chapter II, the DGPC was organized by DOD in lieu of establishing a central office to coordinate property management improvements. Due to the fact that it meets only on an ad hoc basis, it has not received a warm welcome by Congress. [Ref. 3:p. 35]

The researcher was unable to locate anyone at this level who belonged to the GS-1103 classification, Industrial Property Management Specialist.

## B. DEPARTMENT OF THE AIR FORCE

### 1. Organization

The following offices play a key policy-making role with regard to the Air Force's management of GFP:

- Office of the Assistant Secretary of the Air Force (Research, Development, and Logistics), Deputy Assistant Secretary (Acquisition Management)

- Office of the Chief of Staff of the Air Force, Deputy Chief of Staff for Research, Development and Acquisition, Director of Contracting and Manufacturing
- Air Force Systems Command Headquarters (AFSC), Deputy Chief of Staff for Contracting, Director of Contract Management
- Air Force Systems Command Headquarters (AFSC), Deputy Chief of Staff for Product Assurance and Acquisition Logistics, Director of Contract Management

The Air Force Contract Management Division (AFCMD), a major subordinate command of AFSC, is responsible for policy implementation; specifically in the office of Industrial Material Management.

AFSC is responsible for research, development, procurement, and production of all major weapon systems required by the Air Force. Under the DOD Plant Cognizance Program, AFCMD has overall responsibility for administering the contracts written by the AFSC hardware buying division such as the Aeronautical Systems Division, Electronics Systems Division, and the Space and Missile Division. AFCMD is at a level equivalent to, but separate from, the buying divisions. All of the 26 Air Force Plant Representative Offices (AFPROs), where on-site contract administration is accomplished, report directly to the Commander of AFCMD.

Property Administration is an integral function at each AFPRO. Within AFCMD, the Director of Industrial Material Management is responsible to the commander for the functional aspects of Property Administration at all of the AFPRO's. This office is the focal point for all matters

concerning the implementation of property policy within the Air Force.

## 2. Property Management at AFCMD

The Directorate of Industrial Material Management is a major staff office at AFCMD. It is equal in stature to such offices as the Directorates of Manufacturing Operations, Contract Administration, and Quality Assurance. The mission of the office is to:

- Provide staff technical direction over all functions relating to the management control and disposal of industrial property
- Interpret and implement higher headquarters policy
- Establish AFCMD policies and techniques for accomplishing material management functions
- Recommend new policies and policy revisions to Headquarters AFSC

The staffing of this office is as follows: 1 Air Force Lieutenant Colonel, Director; 1 GM-14, Deputy Director; 4 GS-12/13 PA Staff Specialists; and 2 GS-12/13 Plant Clearance Specialists. All of the civilians are GS 1103 series Industrial Property Management Specialists.

One of the primary duties of the individuals in this office is to directly support the Property Administrators at the AFPROs. Some of the support they provide is as follows:

- Formulate and recommend implementing procedures for policies received from headquarters
- Analyze field (AFPRO) management policies, procedures, and controls of property
- Make field visits to determine if the total property management mission is being accomplished and determine



what additional training and skills improvements are required

- Arrange for top level meetings with other Government and industry representatives to formulate plans and policies to improve the management of Government property.
- Arrange for and conduct periodic management training seminars for the IPMS, in the field and for interested industry managers
- Monitor the key IPMS vacancies in the AFPROs

This office is responsible for writing AFCMD Regulation 78-7, Air Force Contract Management Division Industrial Material Management Program. The regulation gives the policies, procedures, and standards that govern management of industrial resources throughout the AFPROs. It is broken down into 18 chapters covering all aspects of property management and including such topics as Training and Reports and Forms. The regulation is the bible for the PAs at the AFPROs. The office is also responsible for writing AFCMD Pamphlet 78-2, Guide to Plant Clearance. It is broken down into 17 chapters covering such topics as Scrap Management and Abandonment and Destruction of Surplus Property.

The discussions revealed a close working relationship between the individuals here and the Property Administrators at the AFPROs. It was noted that five of the IPMSs at the GS 12/13 level at AFCMD have been given, in addition to their regular duties, "plant assignments" that include all plants producing hardware for the Air Force. The assignment means in essence that they are responsible for keeping open the lines of communication with the PAs at the



AFPROs in those plants. Additionally, these same specialists are given "standing assignments" to subject area so that anyone at an AFPRO experiencing a problem in that particular area could contact that designated person. There are seventy subjects identified on the list. Some examples are Facilities, Special Tooling, Termination tracking, and Precious Metals management.

One of the concerns expressed during the discussions had to do with the adequacy of the number of 1103's employed today. The specific comment was that "not one AFPRO is staffed adequately to do the job the way that DAR/FAR intended it to be done." An additional concern was that the Brooks Committee recommendation that the Government establish GFM accounting controls would end up with the Government and the contractor duplicating records. This, it is felt, would merely compound the problem of inadequate 1103 manning.

This office was the first level in the Air Force chain of command where 1103 series individuals were found. Those at the policy levels mentioned earlier were predominately series 1150, Production, or series 1102, Procurement.

It was the opinion of personnel in this office that maintaining one central office with property management responsibility lead to more uniform application of policy and procedure. Additionally, they stated that, having one organization to receive complaints, act on suggestions, and

help the PAs learn from each other's failures and successes, made more sense than leaving them to learn everything on their own.

### 3. AFPRO Comments

The AFPRO visited is large and administers contracts totaling \$4.54 Billion. The property management function is assigned six IPMSs ranging in experience from a GS-9 trainee to the GS-13 property administrator. Approximately \$800 Million worth of GFP is assigned to the contractor.

The discussions revealed a close working relationship between the individuals here and their counterparts at AFCMD. Concerning the plant assignment/standing assignment responsibilities of the IPMSs at AFCMD, one individual stated that, "If I go for two weeks without contacting headquarters, I get a call."

It was the general consensus of opinion that the organizational interface between the AFPRO and Industrial Material Management office at AFCMD was excellent. One individual described the office at AFCMD as the "corporate knowledge."

One of the concerns expressed during discussions was that there is a communication gap keeping PCO's and property administrators apart. The result is that many contracts are written with stipulations that PAs have difficulty meeting. The recommendation was the IPMSs need to be involved before the contract is signed just as much as after.

Continuing along the line of IPMS involvement in the writing of contracts, one final comment concerned Navy contracts. Approximately \$800 Million of the \$4.54 Billion in contracts administered at the AFPRO were Navy contracts. The property administrator provided examples of several audit reports, done at that AFPRO, that stated that "the Navy needs to improve how they word their contracts." The thrust of these audit statements was that, due to the ambiguous language contained in many of the non-standard clauses, both the AFPRO ACO and PA could not effectively administer the contracts as written.

## C. DEPARTMENT OF THE ARMY

### 1. Organization

The following offices play a key policy making role with regard to the Army's management of GFP:

- Office of the Assistant Secretary of the Army (RD&A), Deputy Assistant Secretary (Acquisition)
- Office of the Chief of Staff of the Army, Deputy Chief of Staff for Logistics, Director of Contracting

The Army Material Command (AMC) in Washington, D.C. is responsible for policy implementation. At AMC headquarters the Program Formulation Division is responsible for the Army's implementation of that policy and the overall management of GFP in the possession of contractors.

AMC is responsible for the integrated management of material and related services required by the Army. It is charged with the research, development, procurement, and

production of all major weapon systems required by the Army. Under the DOD plant cognizance program, the Army's contract administration is performed at field contract administration offices which are subordinate to the commodity commands which are directly subordinate to AMC. Property Administration is an integral function performed at the field level.

The senior property person assigned to AMC considers the office to be the focal point for all matters concerning the management of Government property in the possession of contractors producing for the Army.

## 2. Property Management at AMC

The Program Formulation Division reports to the Assistant Deputy Chief of Staff for Industrial Preparedness who reports to the Deputy Chief of Staff for Production. The mission of the individuals working with property issues is multifaceted. A summary of some of the key responsibilities include:

- Interpreting and implementing higher headquarters policy
- Maintaining Industrial Plant Equipment Packages (PEP), consisting of lathes, forges, metal cutting, forming, and shaping equipment that are stored for mobilization
- Executing the sale of ammunition and weapons to friendly foreign governments
- Attending the meetings of the Defense Government Property Council
- Acting as the Army's representative to the DAR council property committee



Accomplishing these responsibilities are 1 GM-12, and 2 GS-12's. All of them are 1150 series, Production Management Specialists. This office is responsible for writing and distributing a regulation that will give the policies, procedures, and standards to be used by PAs at Army contract administration offices. The publication is in the process of being written at this time.

One of the concerns expressed during the discussions was that the grade levels in the 1103 series is too low overall. It was explained that much of the reason for the big turnover in the 1103 series is due to the fact that there are so many higher grades in the 1102 Contracting series and the 1150 Production series. One example cited was that there were only two GS-15 1103 series positions in the whole Department of Defense. One of the goals of the office was to establish a training program for PA's, but it has not yet "gotten off the ground."

It was the opinion of the individuals in the office that centralization at some level in the chain of command was necessary to make sure that people or commands don't go off "helter skelter." They felt that their office was able to provide an interface between the field activities, Army headquarters, and the DAR committee.

The individuals that Program Formulation Division personnel deal with the most are at the commodity level one step below AMC. There is little direct communication



between AMC and the PA's in the field. The commodity commands specialize in the acquisition of a particular type of hardware or perform a special mission such as Troop Support. Since the researcher was interested in only a representative view of the Army's property management function, not every one of these commands was selected for investigation. Three were chosen as best representing the Army's hardware acquisition responsibilities. They are the Tank-Automotive Command (TACOM), the Armament, Munitions, and Chemical Command (AMCCOM), and the Aviation Systems Command (AVSCOM). The remainder of this section will present a short description of the organization for property management at these commands. The commodity command level was the first level in the Army chain of command where 1103 series individuals were found.

a. Tank Automotive Command

TACOM does not have one particular office designated to provide policy guidance/professional assistance or to act as a point of contact for the property administrator in the field. An individual working in the Industrial Preparedness Branch of the Production Division under the Procurement and Production Directorate stated that his office often forwarded pertinent property information to the PAs, but no 1103 series Industrial Property Management Specialists were assigned there. The Property Administrator at one of the two Government-owned contractor-operated

(GOCO) Tank plants felt that the property administration function there was a "separate entity." This individual stated that, while there was communication with TACOM, the majority of problems were resolved locally with the assistance of the ACO.

b. Armament, Munitions, and Chemical Command

The primary mission of the Property Accountability Branch in the Equipment Management Division of the Directorate of Industrial Readiness is to staff supervise property in the possession of contractors who run the 24 GOCO Ammunition plants for the Army.

The office is staffed by 1 GS-12 and 3 GS-11's. They are all 1103 series Industrial Property Management Specialists who provide policy and technical guidance to the property administrator in the plant. The contract administration at each plant is performed by an on-site Contracting Officer's Representative (COR). The property management function, which reports to the COR, is performed by one Property Administrator and one equipment manager. As a means of providing professional help to the PA's at the GOCO's, the IPMS's in the Property Accountability Branch at AMCCOM routinely visit all of the plants to assist with the performance of surveys or provide general technical assistance. Discussions with the PA at one of the GOCO's indicated that the visits were extremely helpful. He indicated

that good communication between the PA's and AMCCOM was highly encouraged by the Property Accountability Branch.

c. Aviation Systems Command

The mission of the Industrial Property Management Branch in the Production Management Division of the Directorate of Procurement and Production is multifaceted. A summary of some of the mission responsibilities are:

- Managing the command program which ensures the delivery of property specified in AVSCOM contracts
- Effecting tradeoff of GFM that is being transferred between the services
- Providing for disposition of property returned due to termination or bankruptcy or due to defects
- Acting as the command focal point for collection, maintenance, and dissemination of information concerning GFM
- Reviewing the progress and findings of contractor system surveys performed by the PA's in the field

The office is staffed by 1 GS-13, 2 GS-12's, 1 GS-11, and 3 GS-9's. Personnel working in the office stated that the office was unique in that it had so many 1103 series IPMS's assigned. The explanation for such a large number was that AVSCOM manages conservatively 20 to 30 times as much GFM as the other hardware commodity commands.

One of the additional responsibilities of the office is to perform periodic visits to the three ARPRO's reporting to AVSCOM and to the 9 or 10 AFPRO's, NAVPRO's, and DCASPRO's performing administration on Army contracts for hardware being produced at plants under their

cognizance. However, individuals stated that due to funding limitations they usually aren't able to get to the plants more often than once a year.

### 3. ARPRO Comments

The ARPRO, with whom discussions were held, administers contracts totaling over \$1.5 Billion. The property management function is combined with the Production Branch, which is under the Procurement and Production Division, and consists of 1 GS-12, 2 GS-11's, and 1 GS-9. All are 1103 series IPMS's. Approximately \$120 Million worth of GFP is assigned to the contractor.

The PA stated that while he could count on getting a certain amount of assistance from Aviation Systems Command headquarters, it was not nearly the amount of routine policy and technical guidance that he would like. He felt that under the AVSCOM organizational structure that existed prior to a reorganization a few years ago there was better staffing and control. Consequently, the PA's at the ARPRO's received more direction and assistance. Presently, he is often concerned that he doesn't know the latest changes that have occurred in property management. He feels that the development of an Army PA manual is a good decision and expects that it will help him perform his job better.

One of the concerns expressed during the discussion was that there were not enough IPMS's to adequately survey



the large inventories of GFP in the possession of contractors.

#### D. DEFENSE LOGISTICS AGENCY

##### 1. Organization

As an agency of the Department of Defense, DLA falls under the direction, authority, and control of the Assistant Secretary of Defense (Acquisition and Logistics) and is subject to DOD policies, directives, and instructions.

At DLA headquarters, the Contract Property Management Division is responsible for DLA's implementation of that policy and the overall management of Government property in the possession of contractors at locations for which DLA has contract administration responsibility.

Since 1965, DLA has accomplished its mission to provide contract administration through the Defense Contract Administration Services (DCAS) organization. DCAS is composed of nine regional offices (DCASR's) that are further divided into management areas (DCASMA's) which have responsibility for contractor facilities in a geographic area, and plant representative offices (DCASPRO's) which are resident at contractor's facilities. Property administration is an integral function at both DCASMA's and DCASPRO's.

##### 2. Property Management at DLA

The Contract Property Management Division reports to the Director of Contract Management who reports to the



Director of DLA. The mission of the division is multifaceted. A summary of some of the key responsibilities include:

- Interfacing with the Army, Navy, Air Force, and NASA to formulate overall DOD policy with regard to property
- Providing headquarters policy and guidance to the nine DASR's
- Performing staff assistance visits to the DCASR's
- Accumulating data for DOD for Congressional testimony
- Monitoring establishment of "short subject" training modules for use by IPMS's at DCASMA's and DCASPRO's

The division is staffed by 1 GS-15, 2 GS-14's, and 6 GS-13's. All are 1103 series Industrial Property Management Specialists. The division is divided into a Property Administration Branch and a Plant Clearance Branch.

The division is responsible for writing DLAM 8135.1, Property Administration Manual for Contract Management Services. The manual outlines administrative procedures and identifies and explains technical matters such as maintenance and equipment utilization. It is cross-referenced to the FAR, DOD FAR Supplement and previous DLAM's. The division is also responsible for DLAM 8130.1, Contract Property Disposition Manual, consisting of three chapters covering such topics as disposal methods, recovering precious metals, and the proceeds of sales. In addition, it provides representation to both the Defense Government Property Council Coordinating Committee and the DAR Council.

One concern expressed during the discussion was related to DOD's management of property. One individual

stated that in some of the Military Departments, property management is disjointed. He felt that property management in those Departments did not get the attention it deserved for years until Congressional interest was directed that way. The explanation was that in those departments certain individuals, dispersed throughout the chain of command, who probably aren't Industrial Property Management Specialists, have been placed in positions where they are responsible for a command's property management. For many individuals, it is an additional duty. After a lengthy learning process they familiarize themselves enough to perform the necessary correspondence requirements; but due to a lack of professional property experience, they have been unable to provide meaningful guidance or assistance to those at the field administration sites, nor do they in many cases have the time. If these people transfer, the learning process starts all over again with someone new who has no property experience. The solution discussed was that all Military Departments should have a more structured organization to support the resident PA.

It was the consensus of opinion of the individuals in the Contract Property Management Division that maintaining one central office with property management responsibility leads to more uniform application of policy and procedures and fosters better overall communication.

### 3. DCASR Comments

The DCASR with whom discussions were held has overall responsibility for contract administration at three large DCASPRO's and four DCASMA's located within its region. The property administrator at DCASR headquarters is a GM-13. His position level is that of Division Chief reporting directly to the Commander. His mission was described as one of providing supervisory review, policy and guidance, problem solving, and decision making assistance to the PA's in his region. He indicated that he was often on the phone daily with many of them. He explained that even the most competent and conscientious PA often needs advice or reassurance that a certain procedure should be handled in a particular way. He routinely goes over system survey review sheets that are sent to him by a DCASPRO PA who needs advice or another opinion. One of his most important jobs is to recognize a pattern regarding inquiries received from three or four activities and determine if conditions warrant changing or establishing policy in the DLAM's. He also performs staff assistance visits to the PA's to discuss operations with them and their ACO's and Commanders.

He stated that there was excellent communication between the PA's at headquarters DLA, the DCASR, and the DCASMA's and DCASPRO's. They helped each other.

#### 4. DCASPRO Comments

The DCASPRO visited is large and administers contracts totaling several hundred million dollars. The Property Management Branch reports to the Contract Management Division. It consists of 1 GS-12 property administrator, 1 GS-11, and 1 GS-9. Approximately \$210 Million worth of GFP is assigned to the contractor.

The discussions revealed a close working relationship with DCASR headquarters. The PA stated that there was routine contact with the PA at the DCASR for any problem or issue that could not be resolved by him or his staff. He stated that the DLAM 8135.1 was an excellent guide and that he used it often.

One of the concerns expressed was that contracting officers often do not understand what property administrators do and are often willing to "give away" property such as special tooling without getting adequate reimbursement. He feels that what is needed is more PA input to the ACO decision-making process.

#### E. DEPARTMENT OF THE NAVY

##### 1. Organization

The Office of the Assistant Secretary of the Navy (Shipbuilding and Logistics), ASD (S&L), Directorate of Contracts and Business Management (CBM) is the key office involved in making policy with regard to the Navy's management of GFP.



Assigned to the Contract Administration Branch in CBM is one GM-14 contract specialist (1102 Contracting series) who has been given property policy oversight/coordination responsibilities as a full time job. Additionally, this individual, who has been in the job less than a year, is a representative to the DAR Council Property Committee and attends meetings of the Navy Government Property Council (NGPC). The duties of this person do not entail routine contact with the PA's at the NAVPRO's/SUPSHIP's. Correspondence concerning any aspect of property policy is sent from CBM to the Navy Systems Commands for implementation.

This working relationship is unique in the military and deserves some explanation. Prior to its disestablishment in 1985, the Naval Material Command (NAVMAT) was the central organizational unit responsible for the entire Navy acquisition and contract management program. [Ref. 26:p. 84] The systems commands reported to NAVMAT for policy and regulation. When, in an effort to streamline the acquisition process, NAVMAT was disestablished, its office of the assistant Deputy Chief for Contracts and Business Management migrated briefly to the Office of Naval Acquisition Support (ONAS) and then ultimately to the ASN (S&L) instead of moving up to the office of the Chief of Naval Operations (CNO). The assignment to ASN (S&L) was made because no significant acquisition policy is made by the Chief of Naval



Operations. Consequently, in matters of acquisition, the Secretariat deals directly with the Systems Commands.

It was the opinion of both the Director of CBM and the full-time property coordinator (non IPMS) that the establishment of a central office to implement property policy and manage its accomplishment by the Navy Plant Representatives (NAVPRO's) and Supervisors of Shipbuilding, Conversion and Repair (SUPSHIP's) was unlikely. However, the property coordinator stated that "somebody at the SYSCOM level is imperative."

As stated earlier, CBM passes property policy to the Navy systems commands for implementation. The three systems commands observed in this study were the Naval Sea Systems Command (NAVSEA), the Naval Air Systems Command (NAVAIR), and the Strategic Systems Program Office (SSPO).

## 2. Property Management at the Systems Commands

### a. Naval Sea Systems Command

NAVSEA is responsible for the acquisition of the Navy's Surface Ships and Submarines and for their weapons and combat systems. Once the various hardware contracts are awarded by the NAVSEA contracting shops they are administered by the NAVPRO's and SUPSHIP's which report to NAVSEA headquarters. The Deputy Commander for Weapons and Combat Systems (Code 06) is responsible for management of the four NAVPRO's reporting to him, and the Deputy Commander for

Industrial and Facility Management (Code 07) is responsible for management of the fifteen SUPSHIP's.

Property oversight for the NAVPRO's is one responsibility of the Operations Branch (Code 06G11) of the Operations Management Division. In this office a GS-13, series 343 Management Analyst, is the point of contact for property issues. His duties involving property make up approximately five percent of his total workload and relate primarily to forwarding information received from ASN (S&L) to the NAVPRO's, accumulating data and responding to ASN (S&L). There are no 1103 series, IPMS's assigned to this office to provide routine technical or professional property guidance to the NAVPRO's.

On the shipbuilding side similar responsibilities are performed by the SUPSHIP Operation Branch (Code 0713) of the SUPSHIP's Management Division. There are no 1103 series IPMS's assigned to this office either. Series 343, Management Analysts perform similar duties to those described earlier for the NAVPRO Operations Branch. One individual in this office indicated that they could use an IPMS full time, "especially when the issue (property) is as hot as it is now." Another statement was that they needed more people full time at CBM. The specific comment was that "three would have plenty to do to keep them busy." However, this individual went on to state, property is "low man on

the totem pole." It is unrealistic to expect any more assets to be expended on improving property management.

b. Naval Air Systems Command

NAVAIR is responsible for the acquisition of the Navy's combat and support aircraft and for their weapons and combat systems. Once the hardware contracts are awarded they are administered by the NAVPRO's which report directly to NAVAIR headquarters. The Deputy Commander for Program Support (Code 01) is responsible for management of the six NAVPRO's reporting to him.

Property oversight for the NAVPRO's is one responsibility of the NAVPRO Management Division (Code 119). In this office, one GS-12, series 1103, IPMS is the point of contact for property issues. This is the only trained property professional found at the three hardware buying commands researched. One hundred percent of his time is spent on property matters. He is a point of contact for the PA's at the NAVPRO's, routinely communicates with them, and routes and receives information to and from them. He sets up management reviews which are attended by all the PA's at which they "hash out" problems or discuss particular issues relating to property management. He is involved in a Contract Management Review (CMR), as a property expert, approximately once every three months. This individual stated that he intended to attempt development of a NAVAIR Property Administration manual. A Plant Clearance manual

has already been distributed and is in use. He is a member of the Navy Government Property Council (NGPC). He felt that the overall property management system could be improved if there were more uniformity and that more centralized management was a viable means of achieving that uniformity.

c. Strategic Systems Program Office

SSPO is responsible for the acquisition of the Navy's Fleet Ballistic Missile Weapon System and the TRIDENT Strategic Weapon System. Once the various hardware contracts are awarded, they are administered by the NAVPRO's which report to SSPO headquarters. The Plans and Programs Division is responsible for the management of the two NAVPRO's and one Navy Plant Branch Representative Office (NAVBRO).

Property oversight for the NAVPRO's/NAVBRO is one responsibility of the Financial Information Section (Code SP135) of the Resources Branch in the Division. In this office a GM-14, series 896, Industrial Engineer, is the point of contact for property issues. His duties involve the Acquisition and Maintenance of Industrial Facilities. Less than ten percent of his time is spent on property matters. His responsibilities are similar to those data accumulating and forwarding duties described for the Management Analyst at NAVSEA. He considers himself a point of contact for the PA's at the NAVPRO's, communicates with them



whenever necessary, and maintains weekly contact with CBM concerning policy initiatives. His comments concerning the centralized management of GFP related to the fact that the Navy's real experienced individuals retired when NAVMAT was disestablished, and that we have all new people now who are simply not experienced.

#### F. SUMMARY

This chapter contained a brief explanation of the way the Air Force, Army, DLA, and the Navy are organized to administer the contractor's management of GFP. Air Force organization was observed to be very direct with no management layers between the AFPRO and AFCMD where the office of Industrial Material Management tightly controlled property administration with a work force of eight IPMS's.

Army organization was fragmented below the AMC level. The commodity commands varied in their approach to property administration. Of the three observed, one had no IPMS's assigned, whereas the other two had several. Of those two, one provided ongoing assistance to the PA's in its contract administration offices, while the other offered considerably less assistance and guidance.

The Defense Logistics Agency provided a PA support force at the region where there was routine communication with the PA's at the DCASPRO's and DCASMA's and with DLA headquarters where the Contract Property Management Division provided overall direction with a work force of nine senior IPMS's.



Navy organization was somewhat similar to that of the Army in that both relied on their hardware buying commands to provide the necessary interface with the Property Administrators in the field. The major difference is that the Navy has no Material Command to perform the coordinating function across the buying commands. While the individuals assigned to the Army Material Command are not 1103's, they are identified as the Army's focal point and work full time on property matters. The next level above the Navy's Systems Commands that assumes any property responsibilities is the Contracts and Business Management office of the ASN (S&L) where policy is established. There are no IPMS's in this office. With the exception of one GS-12 at the Naval Air Systems Command, the researcher was unable to locate any 1103 series, IPMS's at a command level above the NAVPRO's or SUPSHIP's.

From the limited discussions described in this chapter, there is no way to determine whether any one Service's operation is better than another. Determining whether one type of organizational structure is better than another is difficult at best. The only observation that can be made is that it would appear, based on the comments of the individuals working within the various organizations, that using a central office, such as at AFCMD or DLA, that provides policy guidance, publications, and proactive leadership by staffs manned with property professionals, seems to result

in field level PA's who feel more confident about doing their jobs correctly. The ability to communicate with someone at the next higher headquarters who can provide advice or problem solving was valued highly by those in the field level property administration offices.

Presented in the next chapter will be the findings of interviews with the Property Administrators at the Navy's twenty seven primary contract administration offices reporting to NAVSEA, NAVAIR, and SSPO. Their opinions concerning centralized management and overall property control will be reviewed.

## V. NAVY SURVEY RESULTS

### A. INTRODUCTION

The data presented in this study were gathered via a survey of all twenty seven primary Navy hardware contract administration offices. The breakdown by the Systems Command or office to which they report is as follows: NAVSEA Weapon and Combat Systems Directorate, four NAVPROs; NAVSEA Industrial and Facility Management Directorate, fifteen SUPSHIPS; NAVAIR, six NAVPROs; and SSPO, two NAVPROs. Data were not requested from SUPSHIP Pearl Harbor nor from the Navy Plant Branch Representative Office (NAVBRO) Magna Utah.

The survey was conducted by telephone with property administrators at the NAVPROs and SUPSHIPS and lasted from twenty to sixty minutes. All interviewees were at the GS-11/12 level. The survey was designed to determine if current organizational structures, staffing, and higher headquarters interface were issues of concern to the PA's who have to make the Navy's system work. The primary thrust of the questioning was to obtain data which would serve to support or deny the need for more centralization in the management of Navy GFP.

Central to this study is the assumption that the people who are working with a system are those who are best able to

judge it. Although personnel interviewed were encouraged to offer any information they felt pertinent, answers to nine primary questions were sought.

## B. THE RESPONSES

### 1. Question One

To which functional area in the NAVPRO/SUPSHIP is the property management function assigned and is it properly located for the most efficient and effective performance? If you feel that it is not properly located, where should it be assigned?

#### Functional Area:

|                              | SUPSHIPS | NAVPROs |
|------------------------------|----------|---------|
| Industrial Division          |          | 33.3%   |
| Material Department/Division | 55.6%    |         |
| Contracts Division           |          | 11.1%   |

#### Properly Assigned:

|     |       |
|-----|-------|
| Yes | 11.1% |
| No  | 88.9% |

#### Should Be Assigned:

|                       |       |
|-----------------------|-------|
| Contracts Division    | 87.5% |
| Separate Organization | 12.5% |

Nine (thirty three percent) of the twenty seven respondents indicated assignment to the NAVPRO/SUPSHIP Industrial Division, fifteen (fifty six percent) to the Material Department and three (eleven percent) to the Contracts Division. Of the nine assigned to Industrial Divisions, six were NAVAIR and three were NAVSEA activities. All of the fifteen assigned to Material Departments were SUPSHIP activities. Of the three assigned to the Contract

Divisions, two were SSPO activities and one was a NAVSEA Laboratory.

In response to whether the PA function was properly located to allow the most efficient performance, twenty four (eighty eight percent) said no. Of that twenty four, twenty one (eighty eight percent) thought that the PA function should report to the Contracts Division and three (twelve percent) thought it should be a separate organization. The three (eleven percent) who responded that the function was properly located were those already assigned to the Contracts Division.

Presented below are some of the paraphrased comments made by the PA's regarding the location of the Property Administration Office.

- I feel like I'm always losing continuity by being assigned to the Material Department. Everytime a new military Material Officer, head of the department, comes in, it takes him awhile to get on his feet and figure out his relationship with the ACO. In many cases communication that needs to take place between me and the ACO is help up by the Material Officer as he interprets the information and determines its effect on him. I need to work for the ACO.
- The PA is not a material manager. His responsibilities have to do with whether the contractor is performing his property responsibilities in accordance with his system and whether his system is in accordance with FAR.
- Under the Material Department collateral duties really get piled on.
- Any actions that are taken against the contractor for property violations come about as a result of interface between the PA and the ACO. The Material Officer is not really involved except to forward or fail to forward the PA's recommendations to the ACO.



- Visibility would be greater under the Contracting Officer. Contractually I'm a representative of the ACO.
- The contractor looks down on the PA as not having the authority to administer the property system because he works for the Material Department and not the ACO.

## 2. Question Two

Is your organization adequately staffed to provide the needed control over property?

|     |     |
|-----|-----|
| Yes | 26% |
| No  | 74% |

Twenty (seventy four percent) of the twenty seven respondents stated that they did not have the right number of people with the proper level of skills to perform property administration as described in the Federal Acquisition Regulation. Several spoke of having vacancies in IPMS billets for months and in one case years. Many indicated frustration at seeing the interest in property heightened, but little being done to make real meaningful changes where they are needed the most, such as in grade level improvement of the 1103 series. Others were concerned that their plant clearance responsibilities had begun to take over as the major part of their job. They felt that plant clearance and other collateral duties cut deeply into their system survey and testing time. Some typical comments received regarding adequate staffing are presented below:

- We're having difficulty hiring because industry is paying more. There is a national shortage of property people. GS series 1102 IPMS's are pretty much dead ended at GS-12. I'm trying now to justify position upgrades because I can only keep someone a year before they find a more open career field. The value of the property assigned and the complexity of most

contractors' property control systems warrants higher grades.

- The grade levels are too low. There are only three GM-14 level positions in DOD and two GM-15 level positions. A young person coming into this series sees immediately that, if he wants to advance, he'll have to go elsewhere.
- I've had a job vacancy for nearly two years.
- I have three vacancies now.
- We can't find enough technically qualified people; we have to train each other to get the skills we need. It's almost impossible to hire an experienced individual at the GS-9 or GS-11 level.
- I'm being told to get tighter control, but at the same time to do so with the same level of manning. There should be as much emphasis on the 1103 series as there is on the 1102 Contracting series.
- Due to the fact that I happen to be a good manager, I am getting pressured to take on additional management type responsibilities that have nothing to do with property administration. I'm concerned that my effectiveness as a PA will be greatly diluted.
- It's very frustrating. Everybody wants more for less. If they are serious about improving let them throw some money in the right direction and not just talk, talk, talk. I've thought about transferring to another career series numerous times.
- While attending school at the Air Force Institute of Technology, I received a study done by the Defense Manpower Data Center entitled "A General Descriptive Profile and Statistical Analysis of GS 1103 series Industrial Property Positions in DOD," January 1984. It revealed that in administering approximately \$15.9 Billion worth of property the Air Force employed 64 GS-12's, 15 GS-13's, and 1 GS-14. To administer approximately \$9.3 Billion, the Navy employed 27 GS-12's, 1 GS-13, and no GS-14's. To administer approximately \$5 Billion, DLA employed 73 GS-12's, 12 GS-13's, 2 GS-14's, and 1 GS-15. Even the Army, with \$3 Billion less than the Navy, had two more GS-13's than the Navy.

### 3. Question Three

What Government publications or other guides do you find most helpful and do they provide sufficient guidance for you to perform your job?

#### Most Helpful:

|                     |       |
|---------------------|-------|
| FAR Part 45         | 100%  |
| DAR Supplement 3    | 70.4% |
| Headquarters Instrs | 77.7% |
| Deskguides/SOPs     | 48.1% |
| AFCMD 78-7          | 11.1% |
| DLAM 8135.1, 8130.1 | 11.1% |
| NARSUP              | 3.7%  |

#### Sufficient Guidance:

|     |       |
|-----|-------|
| Yes | 81.5% |
| No  | 18.5% |

Question three was designed to show which publications were relied upon by the property administrator during the performance of his job. More than one answer was expected from each respondent. The percentages shown reflect the number of PA's which indicated relative routine usage of the publication or guide listed.

The unanimous response was the Federal Acquisition Regulation (FAR) Part 45, which is the basis for all Property Administration. Nineteen (seventy percent) respondents indicated using the Defense Acquisition (DAR) Supplement 3. It was explained that Supplement 3 contains guidance regarding accomplishing contractor surveys and that this information has not yet been included in the FAR.

All of the SUPSHIP's and all of the NAVAIR NAVPRO's, a total of twenty one (seventy eight percent) indicated the use of higher headquarters instructions such as the Ship

Acquisition Contract Administration Manual (SACAM) and NAVAIR Instruction 4330.16B. In addition, the NAVAIR NAVPRO's used a yet to be numbered Plant Clearance Manual provided by the headquarters.

Thirteen (forty eight percent) indicated that they had developed local guides or Standard Operating Procedures (SOP's) which usually consisted of information taken from FAR, Air Force and DLA instructions, or classroom handouts received while attending property administration courses taught by the Air Force Institute of Technology.

Three (eleven percent) respondents indicated use of the Air Force Contract Management Division Industrial Material Management Program, AFCMD 78-7 and three others indicated use of the DLA property manuals DLAM 8135.1 and 8130.1. All three manuals were discussed in Chapter IV. One respondent (three percent) indicated using the Navy Acquisition Regulation Supplement (NARSUP).

Concerning the question of sufficiency, twenty two (eighty two percent) of the respondents indicated that the publications available to them were sufficient. The remaining five (eighteen percent) felt that the FAR was vague or unclear and that consequently they were often forced to make judgmental decisions.

#### 4. Question Four

Is there a need for or could there be a benefit to having a Navy Property Administration Manual that could be used by all Industrial Property Management Specialists?



|           |       |
|-----------|-------|
| Yes       | 74.1% |
| No        | 11.1% |
| Undecided | 14.8% |

A clear majority of the respondents, twenty (seventy four percent), indicated that there is the need for a property manual written from a Navy perspective. The consensus seemed to be that, while there are obvious differences between the way a SUPSHIP property administrator does his job and the way a NAVAIR property administrator does his, a general manual written in layman's terms would be most beneficial. Three respondents (eleven percent) did not believe that such a manual was needed, and four (fifteen percent) were undecided. Presented below are paraphrased comments made by property administrators regarding a manual:

- It would be a good idea if they started out with a table of contents. If it does no more than provide a listing of applicable current publications, it would be worthwhile. The DLAM is heavy in administration and it's redundant. Supplement 3 could be embodied in the manual and tailored to the Navy.
- Yes it would be good, but there would have to be separate sections or chapters that are written to specifically address the uniqueness of a SUPSHIP activity, for instance.
- A manual is definitely needed. I've talked with the property administration instructors at AFIT about it.
- I'm not sure. It's not a necessity. The FAR is good and the AFCMD 78-7 is good for training new people.
- Yes it would be worthwhile, but it needs to be done by people who know what they are talking about.
- I use the Air Force regulations that I got from AFIT. It has good information. FAR doesn't tell you much about doing surveys or other important topics such as loss or damage. The AFCMD 78-7, for example lists the



documentation needed to support a claim of loss or damage.

#### 5. Question Five

Are you aware of the existence of the Navy Government Property Council (NGPC) and do you receive information published by the council?

Aware:

|     |       |
|-----|-------|
| Yes | 96.2% |
| No  | 3.8%  |

Receive Information:

|                  |       |
|------------------|-------|
| Routinely        | 7.4%  |
| Occasionally     | 70.3% |
| Not aware of any | 22.2% |

Question five was designed to determine the extent of PA knowledge about the existence and workings of the NGPC. Twenty six (ninety six percent) of the respondents were aware of the council's existence, but the vast majority, nineteen (seventy percent), indicated that they received information only occasionally. When asked how often the council met, only two individuals indicated that they knew. They were the two (seven percent) receiving information routinely. This was because they had been appointed as field representatives to the council and had received copies of the minutes of the meetings they attended.

Presented below are comments received regarding the NGPC:

- My only exposure to it has been because of my attendance at the property workshops that we have yearly in NAVSEA.

- As far as I know the minutes of the council meetings are only sent to the attendees.
- There aren't enough field representatives on the council especially since there really aren't any (Navy) IPMS's in Washington.
- I'm really not sure who they are and what they do.

#### 6. Question Six

How much technical/professional property guidance or assistance do you receive from the headquarters to which your NAVPRO/SUPSHIP reports, and are there Industrial Property Management Specialists in that office with whom you can discuss situations or problems relating to your job?

Guidance:

|              |       |
|--------------|-------|
| A great deal | 00.0% |
| Some         | 22.2% |
| None         | 77.8% |

IPMS's at Headquarters:

|     |       |
|-----|-------|
| Yes | 22.2% |
| No  | 77.8% |

Question six was designed to determine the degree to which the PA in the field was on his own with respect to the professional aspects of his job. Six respondents (twenty two percent) indicated that they received some technical/professional guidance from their higher headquarters. The same six indicated that there was an 1103 series individual assigned there who had begun to act as a liaison with them concerning property. All six were PA's at NAVPRO's reporting to NAVAIR. The remaining (seventy seven percent) respondents indicated that there was no professional guidance received because there were no 1103 series

individuals, or any other fulltime employees, involved with property management at their headquarters level.

Some typical comments received regarding professional guidance provided by higher headquarters are presented below:

- The person I deal with is a facilities assistant not an 1103. Our headquarters just passes down information and requirements. There is no one there who could give professional assistance even if they would want to.
- Most of the communication between us, is me providing information to them.
- In the early stages of writing contracts involving substantial amounts of property an 1103 needs to be reviewing the contract for the wording in the property clauses and for the overall property requirements. There have been many situations where faulty clauses could have been cleaned up prior to signing a contract.
- If I had a serious technical matter, I could not call anyone at higher headquarters. No one knows the first thing about property there. I get letters from there asking me for information that neither the contractor nor I are required to maintain.
- When NAVMAT was operational there was an individual there who coordinated a lot of property issues. He was knowledgeable and could communicate very well with the PA's. I understand that shortly after NAVMAT closed its doors he retired. We haven't had a real spokesman since. It appears now that CBM in the Assistant Secretary of the Navy's office is attempting to perform some sort of integrating function.

#### 7. Question Seven

To whom do you or would you turn for guidance or assistance if you experienced a property problem that you were not sure how to handle?

|               |       |
|---------------|-------|
| Other PA's    | 100%  |
| AFIT          | 14.8% |
| SYSCOM HDQTRS | 11.1% |
| DLA           | 7.4%  |

More than one answer was allowed each respondent. There was a consensus of opinion (one hundred percent) that contacting another PA would be the primary source of potential assistance. Four respondents (fourteen percent) indicated that they would contact the property administration instructors at the Air Force Institute of Technology (AFIT). Three (eleven percent) stated that they would attempt to get assistance from their System Command headquarters, and two (seven percent) stated that they would contact DCASRs or DCASMAs in their area.

#### 8. Question Eight

Do you think there could be improvements in Navy GFP management if there was one central office to provide policy implementation and technical guidance.

|     |      |
|-----|------|
| Yes | 100% |
| No  | 0%   |

Every Property Administrator interviewed indicated that there should be more centralized management of GFP. Many tended to view the question within the confines of their own particular organization, and stated that there was definitely a need for such an office at the headquarters to which their NAVPRO reported, such as NAVSEA or NAVAIR headquarters. Others revealed a broader perspective and stated that a central office should be at a level high enough to allow it to coordinate the actions of PA's in all Systems Commands. There was no clear-cut agreement as to how and where such a central office should be established, but there



was clear-cut agreement that more help was needed from higher headquarters.

Presented below are paraphrased comments made by the Property Administrators:

- Absolutely. We need somebody at NAVSEA. Now there is an individual in CBM at the ASN (S&L) level who is trying to coordinate GFP improvements, but no one person can do it alone. We need a whole staff which can provide continuing direction.
- Yes, more like DLA and the Air Force. We need an office which can standardize general correspondence and forms and provide somebody you can talk to.
- There is no professional property knowledge at higher headquarters. It seems to me that establishing such an office would be beneficial in terms of dollars returned due to more efficient operation. We need a stronger system of control, people with authority who can lay down some ground rules, and a lot more technical guidance.
- Definitely think so! Since there is no longer a NAVMAT, the CNO level would be a good location. It would definitely be a step in the right direction.
- The road has been unchecked for fifteen or twenty years. We need an office at NAVSEA or CNO. Actually we should have representation at both.
- Yes. We had an individual at NAVMAT before, but most people did not even know he was a focal point.
- Yes. We need an office manned with 1103's who have experience and know how the NAVPRO's operate. They need to have spent time in the field. They could act as a collecting point to pool knowledge and provide alternatives. A lot of us face unique situations. One time I had to dispose of foreign owned property. I called the analyst that is my contact at the SYSCOM, but he couldn't help. Sometimes the regs say nothing. The experience that I gained on that transaction could have been shared with all PA's.
- We need a fulltime staff headed by an SES with a few GM-14 level individuals who would interface with DOD. These people should be representatives to the DGPC and should be involved in the running of the NGPC. When



NAVMAT went away, so did what little control we had. There are no 1103's in the CBM office at ASN (S&L). I don't know exactly where such a new office should be assigned; maybe at the CNO level. But I feel strongly that we need one.

#### 9. Question Nine

How can Navy GFP management be improved?

|                             |       |
|-----------------------------|-------|
| Training                    | 66.6% |
| Higher grades/more people   | 59.2% |
| More guidance               | 33.3% |
| Better interface with PCO's | 29.6% |
| More automation             | 11.1% |

The final question was intended to give the PA's the opportunity to bring up and discuss problem areas that they felt needed to be addressed but that perhaps had not yet been discussed. The responses total more than twenty seven because several respondents provided more than one answer. Eighteen (sixty six percent) indicated that training was the key to improving the system. Sixteen (fifty nine percent) indicated that more people and higher grades were a serious problem. These two responses seemed to be linked together by the fact that continual 1103 turnover resulted in a continuously new unexperienced workforce. Nine respondents (thirty three percent) returned to the topic of higher headquarters guidance and eight (twenty nine percent) stated that property administrators are left out of the procurement process at the most critical point, when the contract is written. Several stated that it was not unusual for them to get contracts with no property clauses at all. Seven (twenty five percent) felt that the NAVSEA sponsored

property seminars needed to be held more often and structured to allow more time for problem solving/case study/presentation type efforts. Three PA's stated that automation was needed at the SUPSHIP's.

Some of the comments received are paraphrased below:

- Training should be funded at headquarters and then authorization sent down to the NAVPRO's, or reimbursable funding should be provided for the NAVPRO's that send people to training. It's all lip service where I am; I can't even get my mandatory courses funded.
- There are very few DOD property courses. As a matter of fact, only two. One is the two and one-half week basic Industrial Property Administration (PPM 151) course, and the other is the one and one-half week Advanced Industrial Property Administration (PPM 300) course.
- I can't get quotas through my higher headquarters for either PPM 151 or PPM 300. AFIT says that quotas are provided to the Navy, but I can't seem to get any. If they are in that much demand, somebody needs to break free some funds and provide more courses.
- Every Contracting Officer should have at least a one week property familiarization course. There is a lack of training for Navy property people and the contractors. We should encourage the contractor's people to go to our schools.
- I can't find technically qualified people. I have to train everybody I hire. We need more local on-site training by professional instructors, such as those at AFIT. That would allow us to train not only a lot of IPMS's at once, but also people who work in areas related to property.
- You'll never be able to do anything about the grade structure. At my command there are eight GS-13 positions and twenty five GS-12 positions in Contracting. There are no GS-13 positions and 1 GS-12 position in Property. How am I going to keep a good individual? My recommendation is to merge the 1103 series into either the 1102 or 1150 series.
- We need core positions at the GS-11/GS-12 level. I get people in as a GS-7 and they leave us as a GS-9 because there aren't that many positions for them after GS-11,

unless they transfer. When headquarters says they have enhanced property management by adding more billets, that's only half the problem. Now the problem is keeping those billets filled.

- There needs to be more emphasis at the buying commands on insuring that GFM we provide to contractors is delivered with the appropriate documentation that clearly shows a price for the material. If we are going to require the contractor to report the dollar value of the property he is managing, the Government has to do its part. The new DD 1662 will require an annual inventory by the contractor of all property currently in his possession. How can he arrive at such a figure, if he never knew the price of the GFM he was provided?
- Some PCO's put clauses in fixed price contracts that should only go in cost contracts. For some reason the Navy is reluctant to use the standard property clauses provided in FAR. It sure makes things confusing sometimes.
- We need a stronger system of control and someone who can lay down some ground rules. We need professional guidance by people who can write instructions in ways so that they can be used. We need a Property Administration "bible."
- The property administrators lack headquarters guidance.

#### C. DISCUSSION OF THE DATA

All of the property administrators were very candid about their role in contract administration and about the problems that they believe to be significant in property management. It is apparent from the responses presented above that they are concerned about their ability to deal with these problems with the resources and support available to them.

Nearly one third of the respondents felt that they were excluded from the acquisition process at the most important point, when the contract is being written. Several

indicated their concern at receiving contracts with no property clauses at all. The predominate feeling was that there should be IPMS's at the buying commands who could be called upon to review the property provisions of contracts. This feeling of exclusion was taken one step further by eighty nine percent of the PA's who felt that they were assigned to the wrong divisions in the NAVPRO's/SUPSHIP's. They felt there was a much more natural working relationship between the PA and the ACO than with either a Material Officer or Industrial Manager.

Inadequate staffing, inadequate grades, and lack of training were identified by nearly three quarters of those identified. Compounding the fact that there aren't enough trained people to make the organization work was the fact that there was no significant professional property support provided by the headquarters level above the NAVPRO/SUPSHIP. To them self-help and help from PA's at other activities were the only means of problem solving. The property administrators felt that they were "on their own." The feeling expressed by many PA's was that the ACO has strong links to both the buying command contracting office and the applicable project/program manager, but that the PA has ties to no one involved with the contract, not even the ACO. They felt excluded from the "team."

As for the sufficiency of the publications available for their use, over eighty percent indicated that they were



satisfied. However, over seventy percent felt the need to supplement FAR and DAR coverage with deskguides, SOP's, and manuals published by the Air Force and the Defense Logistics Agency. Seventy four percent stated that a Navy property administration manual was definitely needed.

The idea of a central office to provide policy implementation guidance and technical/professional guidance was unanimously endorsed. There was no hesitation on the part of any respondent. Several of the PA's proposed that such an office take responsibility for resolving the types of issues that had been discussed during the interviews.

During the course of the interviews, the researcher sensed a pervasive feeling of low morale, seemingly driven by the frustration of working in a field that is getting intense scrutiny, and being without the necessary resources to make a change for the better. At each organization the researcher found the Industrial Property Management Specialists (property administrators) to be concerned and very willing to discuss the issues. The overwhelming response was their eagerness to talk to anyone who might be able to communicate their concerns to higher level officials, hopefully with helpful results. They valued any opportunity to tell their side of the story.

A simple conclusion that can be reached by reading this chapter is that no significant improvement in property administration can be realized without the whole-hearted



efforts of the people who must make the system work on a daily basis. Requiring more in-depth reporting by the contractor and relying on sophisticated computers to more closely track property accounting may help control the flow of property, but achieving these types of improvements without insuring that surveillance of the contractor's property management system is being accomplished by a professionally competent and adequately staffed workforce will result in little overall longterm improvement.

## VI. CONCLUSIONS AND RECOMMENDATIONS AND AREAS FOR ADDITIONAL RESEARCH

### A. CONCLUSIONS

The following conclusions were developed as a result of this research effort:

The property administration function is not properly assigned within the NAVPROs and SUPSHIPS.

As discussed in Chapter V the overwhelming majority of Navy property administrators stated that they were inappropriately assigned. In their opinion, having to deal through material officers or production managers adds one or more management layers between the PA and the ACO with whom he must deal.

Subpart 45.104 of the FAR discusses the relationship that exists between the contracting officer and the property administrator. It describes the PA as a representative of the ACO with responsibility for insuring that the ACO is aware of deficiencies with the Contractor's Property Control System that violate acceptable standards or contract provisions.

The GS 1103 Industrial Property Management Specialist Series is undermanned, undertrained, and experiences high personnel turnover.

The property administrators interviewed expressed growing frustration at often not being able to accomplish

their primary responsibility of system surveillance. In many cases they were bogged down by collateral duties. In other cases they simply did not have enough trained people to efficiently perform the necessary work. While there may be disagreement as to the adequacy of manning at various activities, there is certainly no disagreement concerning the issue of training. There are not enough well-trained IPMS's. In the opinion of the PA's, getting individuals to complete even required schooling is far from a routine occurrence. They cannot understand why it should be so difficult.

Compounding the problems of manning and training is the issue of a career path that is virtually halted at the GS-11 level. If an individual does stay in the 1103 series long enough to get required training, chances are that he will transfer to another career series or find civilian employment before, or soon after, he makes GS-11.

There is a lack of written procedural guidance for property administrators.

While FAR is obviously the source for most general guidance, it is not adequate as a step by step procedural deskguide. Consequently Navy PA's have by necessity looked elsewhere for more detailed guidance. Individuals using AFCMD 78-7 or DLAM 8135.1 believe either to be worthy of emulation. Since the Navy's mission involves both air and sea responsibilities, a Navy manual would need to encompass

a broader range of subjects than perhaps addressed by the Air Force or the Defense Logistics Agency manuals.

The role and responsibilities of the Navy Government Property Council are not understood by the property administrators in the NAVPROs/SUPSHIPS.

The NGPC was established as the Navy's answer to more and better management control over property administration. There can be little argument against the organization of such a council that brings together high level Navy managers and by its existence gives visibility to property administration. However, after having interviewed twenty seven Navy property administrations, the researcher learned that very few understood the goals, organization, membership, etc., of the Council well enough to explain how or why it functioned. Seventy percent said they occasionally received information concerning the actions of the council. Others were not sure whether they had ever received any information about the Council or from the Council. The Navy recognizes the need to enhance the prestige and authority of the 1103 series, but the PA's interviewed did not acknowledge any such enhancements. The Council would appear to be the only organization existing that is capable of monitoring and/or initiating any improvements to the 1103 series.

There is little property management, technical or professional guidance provided by headquarters above the NAVPRO/SUPSHIP level.

Chapter V revealed that eighty-nine percent of the Navy's property administrators would not contact their Systems Command headquarters to request technical/professional guidance. Their first point of contact was fellow PA's. Many would contact the Air Force Institute of Technology or the Defense Logistics Agency for professional advice. The Navy has only one IPMS at a command level above the NAVPRO/SUPSHIP.

Unlike the procedures currently used, property administration in the future will require more contractor reporting and more property administrator effort. Not only must the PA's retain the old skills needed for surveillance duties, but they will, by necessity, have to attain new skills that will enable them to work with the new computerized reporting systems being developed in cooperation with the Office of the Assistant Secretary of the Navy (Comptroller). At the precise time when the art of property administration is becoming more sophisticated and requires the skills and experience of professionals, the IPMS ranks seem to be made up of overworked individuals, who have difficulty getting trained, and who abandon the 1103 series as soon as a more career enhancing Government job becomes available. There is currently a lack of headquarters leadership of the GS 1103 series.



## B. RECOMMENDATIONS

The following recommendations are relevant from this research effort.

The property administration function in all NAVPROs/SUPSHIPS should be reassigned to the contracting division/department.

What is important is that continuing proper surveillance of the contractor's property management system is accomplished in accordance with the guidelines established by the Government. The link between the ACO and the PA must be strengthened. It is time for property administration to stop being the "step child of contract administration." [Ref. 20:p. 78]

An alternate recommendation is that property administration be made a separate division/department on equal level with the material or contracting divisions/departments. The duties of the PA's as described in Chapter III are certainly as complex and important as any other in the contract administration office. In large activities where there are billets for several IPMS's, separation would enhance the professional status of the 1103 series while at the same time allow for improving grade levels. The senior property administrator at contractor facilities that historically maintain a large dollar value inventory of government-furnished property should be a GS-13.

High level management attention should be directed at the GS 1103 series.

First, NAVPRO/SUPSHIP commanders should be encouraged to resist the obvious temptation to utilize IPMS's to accomplish a multitude of collateral duties or special projects. The attitude that the time of a PA is any less valuable than an individual working in contracting or production is manifested in less effective system surveys. Second, provide headquarters funded travel or guaranteed reimbursable funding to ensure that training is available for those who require it. Additionally, higher headquarters should ensure that mandatory training is being accomplished within the required time frames. Third, increase the number of billets at the GS-11, GS-12, and GS-13 level in an effort to enhance the attractiveness of the 1103 series as a career field.

The Navy should develop its own property administration manual.

Seventy five percent of the PA's surveyed stated that a Navy property administration manual would be beneficial; consequently, the office of CBM should continue to pursue the objective of developing such a manual. It should include not only chapters dealing with general information relevant to all property administration, but also chapters including information unique to shipbuilding. Input from property administrators, as to the makeup of such a manual, should be requested. Regardless of whether it is written

in-house or contracted to a firm which specializes in such work, there should be close property administrator coordination of such a project.

The Navy should make a concerted effort to publicize to all property administrators the Navy Government Property Councils charter and goals.

The Council needs to strengthen its ties to the property administrators. It should start by adding two more PA's to its membership (in addition to the two who are currently members) and should assign the PA members responsibility for communicating meeting results to all Navy PA's. In addition, the Council should keep property administrators aware of any efforts ongoing or planned to enhance the 1103 series.

The Navy should establish one centralized office to act as a property focal point responsible for providing policy guidance/implementation and technical/professional guidance to Navy property administrators.

To accomplish wide-scale and long term improvement in Navy property administration, the researcher recommends establishment of a centralized property office. It is not coincidental that the two organizations looked at in this study which had the most centralized management of their property administration functions (the Air Force and DLA) were also the ones which appeared to have the best communication and the most satisfied and motivated workforces.

While it might not be feasible or desirable for a central office to provide such detailed and comprehensive guidance as is performed by AFCMD, it is certainly feasible to establish a central office that focuses its attention on property administrators. However, the best location for such an office is not readily apparent upon review of the Navy's organization chart. Possible locations are: (1) in the office of CBM at the ASN (S&L) level; (2) in an office reporting to the CNO; or (3) assigned as a special office attached to the Naval Sea Systems Command but responsible for guidance to PA's at NAVAIR and SSPO as well. Since nearly seventy percent of all contract administration offices already report to the Naval Sea Systems Command, a special office attached there perhaps makes the most sense. The office should be manned with from three to five individuals at levels GS-13 to GS-15. It should be structured such that it:

- has the authority to acquire needed resources;
- is highly visible and is supported at the highest levels of the Navy as the focal point for property policy implementation and technical guidance;
- interfaces with Navy Comptroller personnel responsible for accounting related changes to property reporting;
- has input, through at least one IPMS located at each SYSCOM, to those PCO's responsible for writing contracts involving significant amounts of property;
- is a central repository for reports and lessons learned;
- takes the lead in addressing PA problems such as manning and training;



- runs the Navy Government Property Council and provides representatives to the Defense Government Property Council.

The researcher believes that the pro-active approach of establishing a centralized property office, with the elements listed above, would overcome the fragmentation that exists today and will allow the Navy to perform more effective and efficient property administration.

#### C. AREAS FOR ADDITIONAL FURTHER RESEARCH

Areas recommended as follow-on thesis topics or research topics are:

- Investigate methods to retain personnel in the 1103 series.
- Study the effect of the increased accounting requirements, currently being developed by the ASD (C), in relation to 1103 series manning.
- Study whether the Navy's decision not to furnish special tooling or test equipment, for use on production contracts, will have any effect on future manning in the 1103 series.

## APPENDIX A

### SUMMARIES OF REPORTS COMPLETED BY GOVERNMENT OFFICES CONCERNING DOD MANAGEMENT OF GOVERNMENT-FURNISHED PROPERTY [REF. 15]

All of the reports written in the last fifteen years since DOD began the phase-down of property are too numerous to mention. A representative few are summarized below. More detailed discussion of reports such as these can be found in the House of Representatives Hearings cited in the List of References.

#### PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY

"Summary Report on Audit of Government Property in the Possession of Contractors/Grantees" (Aug. 1983).

This interagency audit report summarizes the internal control problems identified in over 30 agency audit reports on government property provided to contractors and grantees. Internal controls over the acquisition and accountability for government property in the possession of contractors are weak. These weaknesses resulted in unnecessary program costs and the loss of government property.

Contractors acquired and retained more property than they needed for the contracts because of inadequate acquisition guidelines and government oversight. Contractors had few incentives to finance needed purchases. The government did not maintain independent financial controls and relied on contractor controls, even though many of the contractors had inadequate property control systems.

#### U.S. GENERAL ACCOUNTING OFFICE

"Need for Improvements in Controls Over Government-Owned Property in Contractor's Plants" (B-140389, Nov. 1967).

Contractors need to improve their use of industrial plant equipment, their rental arrangements, and their accounting for--and control of--special tooling and

material. Further the reviews conducted by government-property administrators and internal auditors of contractors management and control of government property were inadequate because the reviews were limited to (1) verifying the accuracy of data in the computations the contractor submitted and (2) determining whether the procedure for computing equipment rental was in accordance with the leasing terms.

"Challenges to Reducing Government Equipment in Contractor Plants" (LCD 77-417, Sept. 1977).

Control over contractor use of government-owned plant equipment needs to be strengthened, and DOD must be more aggressive in obtaining contractor compliance with regulations and must improve its administration of contracts to protect the government's best interest.

"Weaknesses in Accounting for Government-Furnished Materials At Defense Contractors' Plants Lead to Excesses," (FGMSD-80-67), August 1980.

DOD does not maintain adequate accounting for GFM provided to production contractors. As a result, millions of dollars of GFM have been provided to contractors (1) in excess of their contract authorizations and (2) in excess of the amount required to fulfill the contract. Several of the weaknesses found in prior audits on control of GFM furnished to contractors for use in overhaul, maintenance, and repair contracts also exist in production contracts.

"The Navy is not Adequately Protecting the Government's Investment in Materials Furnished to Contractors for Ship Construction and Repair," (PLRD-81-36), June 1981.

The Navy needs to make improvements in its management of GFM to ensure the Government's investment is adequately protected.

The Navy has no central point of control or accountability for GFM. Instead, many commands are involved in its management, and their efforts are not coordinated to prevent duplication or to ensure consistency. These problems are compounded by the lack of inventory manager visibility over GFM in the possession of the Navy's Supervisors of Shipbuilding, Conversion and Repair (Subships) and contractors. Moreover, no activity actively monitors the performance of the various Subships to ensure consistent interpretation and application of GFM regulations and directives.

Although the Subships' basic regulations and directives for GFM are the same, they did not interpret and apply these

in the same manner. As a result, their effectiveness in managing GFM varied widely.

The failure of . . . Supships to fully enforce DAR led to inaccuracies and inefficiencies in contractors' GFM control systems, caused excess items to be held for extended periods of time, and inadequately protected the Government's interest.

#### NAVY INSPECTOR GENERAL

"Supervisor of Shipbuilding, Conversion and Repair, USN. Newport News," November 1978.

Four SUPSHIPS and 14 contractor audits scheduled for calendar year 1978 were not conducted. The contractor was holding an estimated \$8 million of excess government property. As of October 27, 1978, 200 excess defective repairable items were held by the contractor; 120 of these for more than 90 days.

#### NAVAL AUDIT SERVICE

"Supervisor of Shipbuilding, Conversion and Repair, Pascagoula, Miss." Report A-41568, March 1979.

There is no adequate procedure within the Navy for disseminating information as to what components furnished private contractors as GFM are under warranty. GFM was not being administered in accordance with pertinent directives. For example, a property system survey plan was not developed; the annual system survey was not being done; the contractor was not returning allocable quantities.

"Naval Plant Representatives' Office, Lynn, Mass.," April 1980.

This office is accountable for about \$138 million of Government property. Annual evaluations of the contractor's property control system were inadequate or incomplete for fiscal years 1977 through 1979.

"Audit of Government-Furnished Property in the Possession of Contractors and Grantees--Phase II" (G20052, Sept. 1983).

This audit includes work at Naval Plant Representatives Offices (NAVPRO) located at St. Louis, Missouri, and Pomona, California; at the Supervisor of Shipbuilding, Conversion and Repair (SUPSHIP) at Groton, Connecticut; and at the Naval Submarine Bases (SUBASE) at Bangor, Washington, and Kings Bay, Georgia.



The property-control systems contractors used at SUBASE Bangor and NAVPRO Pomona to account for government-furnished property were not always adequate. Government representatives at these two activities as well as at SUPSHIP Groton did not perform the required checks of the integrity of contractors' property control systems. In some instances, adequate control over the acquisition of government-furnished property did not exist at SUBASEs Bangor and Kings Bay and at NAVPRO Pomona.

At SUPSHIP Groton and SUBASE Bangor, government property administrators did not establish DAR-required procedures for evaluating use, setting minimum-use levels, and recording use data. As a result, it could not be determined whether any of the \$5.2 million of industrial plant equipment at the two locations exceeded contractor needs.

#### ARMY AUDIT AGENCY

"Control over GFM, U.S. Army Bell Plant Activity," Report MWZZ-202, November 1976.

Annual surveys of the contractor's property control system were not made. The contractor had problems in maintaining controls over GFM. Physical inventory of 37 high-dollar value items showed that adjustments of \$1.4 million were needed on 20 items to make inventory records agree with on hand balance.

"Government-Furnished Property, Detroit Tank Plant, Warren, MI" (EC 83-603, March 1983).

An audit of the Detroit Tank Plant in Warren, Michigan showed that the management of government-furnished property in the functions selected for review was inadequate. First, the contractor did not have adequate procedures to identify and report excess GFM. Second, sufficient documentation was not always available to support the contractor's requests, and subsequent Army approval, to acquire GFE. Third, internal controls over equipment and gauges were so weak that inventory losses occurred and items were written off accountable records without adequate research. Finally, financial records were inaccurate and could not be used as internal controls, or to make the GFE provided to contractors visible.

"Government-Furnished Property, U.S. Army Plant Representative Office, Bell Helicopter--Textron, Fort Worth and Amarillo, TX" (SW 83-600, March 1983).

Management of government furnished property in the functions reviewed was not adequate. Regulatory guidance

related to government-furnished property was not always followed, and better management of government-furnished property in the hands of the contractor was needed. The need for replacing or transferring special test equipment to follow-on contracts was not validated. Required property surveys were not performed and accountability over government-furnished material was inadequate.

#### AIR FORCE AUDIT AGENCY

"Review of Government Property, Air Force Plant Representative Office, Lockheed-Georgia Company, Marietta GA" (975-7, March 1983).

Government controls were adequate to ensure that contractor procedures and practices for acquiring government property followed contractual provisions. The property administrator's property surveys were accurate, reliable, and timely. However, government materials on hand were excess to contractual requirements, for which the property administrator had taken no action. Property accountability records, showing locator and identify data, were not always accurate. Also, government equipment was used without proper approval or authority.

"Government Property in the Possession of Contractors" (Project 828168, May 1983).

Current Air Force policies and procedures for the approval, acquisition, control, and use of government property are generally adequate. However, six of seven contractor facilities examined acquired government property before determining whether DIPEC or the Defense ADPS Resource Office could furnish the items. Also, the Air Force was not keeping accurate records of property locations. The deficiencies were considered to be correctable by local management and were reported to them. Action by HQ USAF or HQ AFSC was not required in the opinion of the reviewers.

## APPENDIX B

STATEMENT BY MR. JOHN A. MITTANO DEPUTY ASSISTANT  
SECRETARY DEFENSE (PRODUCTION SUPPORT)  
BEFORE THE SUBCOMMITTEE ON LEGISLATION  
AND NATIONAL SECURITY COMMITTEE ON  
GOVERNMENT OPERATIONS, U.S. HOUSE  
OF REPRESENTATIVES ON MARCH 20, 1986

Mr. Chairman and members of the committee, I appreciate this opportunity to appear before you in connection with your continuing interest in Government property. I will relate this subject to broader areas of the industrial base, initiatives to encourage contractor investment in capital equipment, the Secretary's responsibilities under the Defense Industrial Reserve Act of 1973 and our policies to reduce Government ownership of property.

The Department of Defense (DOD) relies on a strong industrial base to produce defense goods for national security. We know that a part of this base is owned by the Government and DOD policies stemming from the Defense Industrial Reserve Act of 1973 is to place maximum reliance upon private industry to provide plant and equipment for defense production. To accomplish this we must obtain increased contractor capital investment.

We are taking direct steps to obtain such investment and also to improve productivity by providing industry with economic incentives to modernize plant and equipment. A major effort in this regard is the Industrial Modernization Incentive Program (IMIP). IMIP is aimed at fostering increased defense contractor capital investment that results in increased productivity, improved quality, reduced DOD acquisition costs, and an enhanced industrial base. The main focus is on encouraging contractors to invest their own funds for this purpose. The primary incentives are shared savings, contractor investment protection, award fees, and others that may be appropriate. IMIP is an acquisition tool with application when specific criteria (investment over and above what would otherwise be made, evidence of cost reductions to the DOD, etc.) are met. It is a targeted and controlled way of achieving its intended results. Negotiation of a "business agreement" with benefits to both parties is the key to its process.

The IMIP has been in a test phase since November 1982. A policy documentation package (DOD FAR supplement coverage,



a DOD directive and a DOD guide) is in the formal coordination process in the near future, will facilitate broader military department implementation and full realization of benefits that are possible.

Before discussing that part of the industrial base that is owned by the Government, I think it is relevant to see how we got into our ownership posture. Most DOD production facilities were established in the World War II era, when sizeable Government investment was required to insure that national defense needs were satisfied. Contractor-owned facilities were augmented during that period to support the war effort. That is why, in some cases, you will find contractor and Government-owned plants sharing common walls, utility systems, etc. Many of these activities continue to support current, as well as the emergency industrial preparedness base.

Our policy for over 20 years has been to reduce ownership to the minimum essential to support emergency defense requirements. This is generally referred to as the "facilities phase down" policy. To prepare for these hearings, we collected information to assess the impact of Government property on defense production. The information collected, which I will share with you, confirmed my belief that there is no such thing as a defense industrial base with the possible exceptions of the ammunition and tank bases. There is a U.S. industrial base of which defense is one of the customers. The data shows:

- Government-owned contractor-operated (GOCO's) plants numbered 112 in FY 69. There are 64 GOCO's today.
- 24 of today's 64 GOCO's are Army ammunition plants. These 24, as well as others, have both peacetime and mobilization requirements.
- In FY 85 we did business with 33,515 contractors that received contracts above \$25,000.
- Approximately 5,000 contractors are in possession of Government property.
- Since 1971, industrial plant equipment (IPE) in the possession of contractors has decreased from \$2.0 to \$1.6 billion. Not dramatic perhaps, but clearly a decrease during a time of growing budgets and inflation. A statistic that is of importance is that of industry's investment. The aerospace industry's annual investment has approximated \$3 billion during each of the past five years. The manufacturing industry has ranged between \$112 and \$138 billion during the same period.



We are aware that other plant equipment (OPE) increased from \$1.9 billion in 1971 to \$4 billion in 1984. Our initial review indicates that a portion (\$1 to \$1.5 billion during FY 84) of the OPE is isolated in non-industrial type locations such as the Defense Early Warning System (DEW Line).

However, we are concerned about the growth in OPE by all three services during the same period when DOD policy emphasis is on contractor investment. Other than a policy change that resulted in some IPE being reclassified as OPE, we have no ready answers for the increases. We do see the need for increased visibility and an improved DOD industrial property management system, that I will discuss later.

When one views the amount of Government-owned property in the possession of contractors from the perspective of our total defense business, less than 15 percent of the contractors possess such property. Even though Government-owned property is a relatively minor part of the industrial base, our management efforts have been increasing because we see the need for the military departments and defense logistics agency to be fully accountable for all Government-owned property that is under their administration and control.

In the later 1960's SECDEF recognized the need to establish a formal program to reduce Government ownership of industrial facilities. In 1970, the facilities phase out policy was established to accomplish this reduction. It was later retitled "the phase down policy" in recognition of the fact that facilities required to support certain mobilization requirements (such as ammunition plants) will probably need to be retained.

The phase down policy has been successful to the point that we now own fewer plants and less industrial plant equipment (IPE). Over the years the Air Force has been very active in implementing this policy, particularly the negotiated sale of plants and associated equipment to using contractors. They presently have two other plants with the General Services Administration (GSA) for sale and have identified four other potential candidates. The Navy made a significant divestiture of GOCO plants in the late 50's and early 60's. This type of property reduction will continue. I was recently informed and am pleased to report that the Army and Navy are currently reviewing their GOCO's to determine possible candidates for sale under the authorities of the Federal Property and Administrative Services Act of 1949.

We know we have property in contractor-owned and contractor-operated (COCO) plants that is "excess to

ownership" but is required for current production. The Office of the Secretary of Defense (OSD) General Counsel has issued the opinion that there is no clear-cut authority to negotiate a sale of this type of property to using contractors. Without such authority, it is difficult to fully implement the phase down policy. This lack of authority is one reason the phase down policy has not been as successful as we would like. The GAO General Counsel has been investigating this area as well, to determine if in his opinion any authorities do exist to permit such sales. If needed, we have drafted legislation to obtain such sales authority in order to alleviate this constraint to the phase down policy. I should point out, however, that previous legislation of this nature was introduced in the 1970's without success. If such legislation is introduced again we will need strong Congressional support to obtain passage.

We are making improvements with respect to managing the various types of property we need to continue to own to accomplish our mission. A few examples are:

- Within OSD, management control of property is the responsibility of the Assistant Secretary Defense (Acquisition and Logistics). Financial and accounting responsibilities are with the Assistant Secretary Defense (Comptroller).
- The Defense Government Property Council (DGPC) has been strengthened under new OSD leadership--I am chairing the council with other OSD principals being Mr. Shriber, DASD (Logistic and Materiel Management), OASD (Acquisition and Logistics); and Mr. Draft, DASD (Management Systems), OASD (Comptroller). The chairman of the Council's coordination committee has been relocated to my immediate staff in the Pentagon to enhance daily coordination of all property actions within OSD and the services.
- The Navy formed a Navy Government Property Council in April, 1985, to serve as a focal point to centralize recommendations for policy improvement. We have been informed that the Army is planning to form an Army Government Property Council. These service councils should help in the implementation of Defense Government property policies.
- A modification to DODI 4140.48, titled "Controls of Access to DOD Material Inventories" has been signed by the ASD (A&L). This modification requires that GFM requisitions for production and supply contractors as well as maintenance contractors be submitted to a

central office within each service for review and validation.

- An ad hoc group to the Defense Property Council is devising improved controls over Government property in the custody of contractors by developing a database for the use of property managers. This database is designed to provide managers with sufficient visibility to adequately manage the Government owned assets that are under their responsibility. The system being developed is called the: Department of Defense Industrial Property Management System. Current plans are to have the ad hoc group display this system to the property council during June 1986. I have been informed that its accountability subsystem is being designed to track all dollars of DOD plant and equipment on a contract by contract basis and will require all dollars reported in one year to be accounted for in the following year. Accountability tracking of special test equipment, special tooling, military property, and material would be phased-in over time--first through the GOCO's and plant representative offices (which account for over 75 percent of the Dollars) where we have direct physical access to the contractors' records on a daily basis. It appears this additional reporting can be accomplished at the GOCO's without contractual changes or additional report-approval authorities. Phasing-in of additional reporting by contractor owned and operated plants will probably take more time since existing contracts will have to be modified and OMB report approval clearances obtained.
- The Defense Logistics Agency (DLA) is disposing of over 6,000 idle and unneeded industrial plant equipment items from the DOD General Reserve. This disposal will take approximately three years since the sales have been constrained by the Department of Commerce in order to eliminate a market impact on commercial machine tool sales.
- The Property Council's ad hoc group for financial accounting for Government property has been working to expedite implementation of financial accounting standards for property. Since we came before your committee last year our accountants identified a candidate system for potential DOD-wide use. Efforts are ongoing to evaluate the suitability of the system in terms of the management needs and overall financial systems of each of the services. The candidate system is in use by Air Force Industrial Funds and plans have been developed to upgrade the system so that it can be used by non-industrial fund users. Current Air Force planning



schedules call for the upgraded system to be operational during October, 1987.

We are particularly pleased with the system because it has widespread acceptance by contractors; and this was a major industry concern when we were discussing the need for a financial accounting system to control GFM, and the related concepts.

We believe that the Air Force system, and the modifications that are being made to it, represent the best approach to accounting for GFM that has been demonstrated. The other DOD components have been exposed to the Air Force accounting system and were requested to consider it for adoption. We believe making use of accounting systems already developed makes good sense--it is often less costly to adopt techniques and technologies of existing systems rather than designing new ones.

In conclusion, we have seen progress during the past year in property. However, we are aware that the following areas, as well as others, need continued attention and strengthening:

- Facilities phasedown;
- Negotiated sale of GOCO's;
- Reduction of initial provisioning of equipment;
- Implementation of financial accounting; and
- Increased visibility of property in the possession of contractors.

My office, as well as the Defense Government Property Council will continue to monitor and strengthen the government property program and we are committed to initiate policy changes as necessary.

As previously stated, we look to the private sector to provide the vast majority of capital assets that are necessary to manufacture defense goods. Our industrial preparedness needs will require us to continue some ownership. We are committed to reducing this ownership to the essential nucleus intended by the Defense Industrial Reserve Act of 1973.

This concludes my prepared statement. Representatives from the services, the Defense Logistics Agency, and I are available to respond to any questions you may have.



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